NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

CIS Congressional Information Service, Inc.
Washington, D.C.

WORLD BANK AND POVERTY ALLEVIATION

HEARING

BEFORE THE

SELECT COMMITTEE ON HUNGER
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, JUNE 20, 1990

Serial No. 101-21

Printed for the use of the Select Committee on Hunger

U.S. GOVERNMENT PRINTING OFFICE
32-154 ⇆ WASHINGTON : 1990

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

H961-4

SELECT COMMITTEE ON HUNGER

TONY P. HALL, Ohio, *Chairman*

LEON E. PANETTA, California
VIC FAZIO, California
PETER H. KOSTMAYER, Pennsylvania
BYRON L. DORGAN, North Dakota
BOB CARR, Michigan
TIMOTHY J. PENNY, Minnesota
GARY L. ACKERMAN, New York
MIKE ESPY, Mississippi
FLOYD H. FLAKE, New York
ELIZABETH J. PATTERSON, South Carolina
THOMAS M. FOGLIETTA, Pennsylvania
ALBERT G. BUSTAMANTE, Texas
MICHAEL R. McNULTY, New York
ENI F.H. FALEOMAVAEGA, American Samoa
ELIOT L. ENGEL, New York
LES AuCOIN, Oregon
ALAN WHEAT, Missouri
JILL L. LONG, Indiana

BILL EMERSON, Missouri
Vice Chairman
MARGE ROUKEMA, New Jersey
SID MORRISON, Washington
BENJAMIN A. GILMAN, New York
ROBERT F. (Bob) SMITH, Oregon
DOUG BEREUTER, Nebraska
FREDERICK S. UPTON, Michigan
WALLY HERGER, California
DUNCAN HUNTER, California
FRANK R. WOLF, Virginia
CHRISTOPHER H. SMITH, New Jersey

MARTIN S. RENDON, *Staff Director*
BILL COFFIELD, *Minority Staff Director*

CONTENTS

Page

Hearing held in Washington, DC, June 20, 1989 1

Statement of:

- Dallara, Charles, Assistant Secretary for International Affairs, U.S. Department of the Treasury, accompanied by E. Patrick Coady, U.S. Executive Director, World Bank 2
- Hall, Hon. Tony P., a Representative in Congress from the State of Ohio, opening statement of 1
- Hardy, Chandra, International Development Training Institute 23
- Hehir, Rev. J. Bryan, professor of ethics, Kennedy Institute of Ethics and School of Foreign Service, Georgetown University 17
- Williams, Maurice, senior fellow, Overseas Development Council 21

Prepared statements, letters, supplemental material, et cetera:

- Alexander, Nancy C., Friends Committee on National Legislation, prepared statement of 77
- Basic facts on the World Bank 42
- Dallara, Charles H., Assistant Secretary for International Affairs, U.S. Department of the Treasury:
  - Prepared statement of 43
  - Statement of IDA credits approved during fiscal year 1989, table 51
- Hardy, Chandra, International Development Training Institute, prepared statement of 73
- Hehir, Rev. J. Bryan, Th.D., professor of ethics, Kennedy Institute of Ethics and School of Foreign Service, Georgetown University, prepared statement of 56
- Hunger Committee hearing on the World Bank 41
- Williams, Maurice, senior fellow, Overseas Development Council, prepared statement of 65

WORLD BANK AND POVERTY ALLEVIATION

WEDNESDAY, JUNE 20, 1990

House of Representatives,
Select Committee on Hunger,
Washington, DC.

The committee met, pursuant to notice, at 10:20 a.m., in room 2247, Rayburn House Office Building, Hon. Tony P. Hall [chairman] presiding.

Members present: Representatives Dorgan, Penny, Flake, Faleomavaega, Long, Herger, and Smith of New Jersey.

OPENING STATEMENT OF HON. TONY P. HALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. **Hall**. Good morning. Today the Select Committee on Hunger will take a look at how effective the World Bank has been in implementing congressionally mandated antipoverty programs.

This hearing is both important and timely. It's important because despite any number of fads and development policy changes over the last 25 years, global poverty still remains a problem of staggering dimensions. More than one billion people, nearly half the population of the developing world, live in poverty, subsisting on annual incomes of about $1 a day per capita.

These are lives beyond statistics; one billion people living on the margin of society. In Bangladesh, for instance, like so many developing countries, families live crowded into tiny shacks made of mud, straw and dried leaves. They have to fight just to survive. Typically, 85 percent of their income will go to food, two meals a day, mostly rice.

Our hearing this morning is also timely. This afternoon the Bank and Subcommittee on International Development Institutions and Finance is marking up the ninth replenishment of IDA, the World Bank's soft loan window for the poorest countries.

In last year's IDA's authorization, the Banking Committee adopted language introduced by my colleague, Mr. Bereuter, called "Increasing the Productive Economic Participation of the Poor", requiring the Bank take specific steps to alleviate poverty. That language is now law.

We are here today to see how well the Bank has done at implementing that law. The legislation calls on the Treasury Department to instruct the U.S. Executive Director to the World Bank to establish policies in three areas to ensure that the Bank makes poverty alleviation central to its discussions with borrowing countries.

In brief, the law requires that one, the Bank's aid allocation decisions be based on a government's demonstrated commitment to poverty eradication; two, recipient countries develop national poverty programs; and three, the Bank assist countries to develop national poverty plans.

This is not an academic exercise. The World Bank has more potential to improve the lives of women and children, the two groups most vulnerable to poverty, than any other international body. That's why this legislation is so important. It is a tool to make aid more effective, but like any tool, it's only effective if it's used. The Bank still has to be much more aggressive in its attack on poverty.

Development should not be a choice between growth and poverty reduction. Experience has clearly shown that both have to be pursued. We all agree on the goals and now that there finally seems to be more agreement on the means to end poverty, the Bank must go beyond good rhetoric and raise poverty issues to the top of its list and its dialogue with borrowing countries.

We look forward to a report from our witnesses.

Congresswoman, do you have any——

Ms. LONG. I don't have an opening statement.

Mr. HALL. Then we will proceed right away to our first panel. Our first witness is Charles Dallara, Assistant Secretary of International Affairs of the Treasury Department. I'd like to thank Mr. Dallara for his good work in implementing the poverty legislation. We need advocates for the poor, and I'm glad we have one at the Treasury Department.

I look forward to your testimony. I have read your written statement. I would appreciate it if you could summarize for the committee what you have come to say.

We also have next to him Patrick Coady, who is the U.S. Executive Director for the Bank, and Mr. Coady will answer questions, but will not make a statement.

STATEMENT OF CHARLES DALLARA, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF THE TREASURY, ACCOMPANIED BY E. PATRICK COADY, U.S. EXECUTIVE DIRECTOR, WORLD BANK

Mr. DALLARA. Thank you very much, Mr. Chairman. Indeed, it is a pleasure to appear before the Select Committee on Hunger this morning, along with Mr. Coady, who is on the front lines of working on this serious problem at the World Bank on behalf of the entire U.S. Government.

Let me begin, Mr. Chairman, by first asking with your concurrence, that the full statement that I've submitted be entered into the record, and then with your concurrence, I will only hit the high spots this morning, Mr. Chairman.

Mr. HALL. Sure, without objection.

Mr. DALLARA. As you, yourself, have just stated, Mr. Chairman, the global problem of poverty remains one of staggering dimensions. It is, indeed, a pressing issue for this administration, as well as for the vast majority of developing countries, and the vast majority of people within those countries.

As we look at the most straightforward data that one can look at to give us some indication of the poverty problem, we see that there are still 50 member countries of the World Bank, roughly one-third of that membership, with annual per capita incomes of less than $500.

And we recognize, as you have already suggested, Mr. Chairman, that even within developing countries with larger per capita incomes, that there remain significant segments of the population whose income falls well below those levels, and who continue to exist on a daily basis in a state of severe poverty.

Our goal, as yours has been, is to try to work to address effectively, sustainably, and persistently that poverty problem. Our approach has been centered on the fundamental need to promote investment in growth. Improvements in per capita income simply are not possible without sound and sustainable economic growth in the developing world.

For this reason, we have placed a great deal of effort into supporting macroeconomic reforms that free up economic rigidities, that promote sustainable growth, and that assure that the scarce and very limited resources in these countries are used efficiently to promote investment, and to create a greater abundance that can be shared throughout the country and can lift the masses of population out of poverty.

We have, in particular at the World Bank, placed particular emphasis on structural adjustment programs, which provide policy guidance and financial support for economic reform. Of course, while this attack on poverty through growth is essential, it is not sufficient, Mr. Chairman. The Bank must direct its efforts, as well, to a variety of social sectors where attention, developmental support, funding, and education are clearly needed.

Such areas as education, such areas as health, such areas as women in development, such areas as social safety nets in conjunction with adjustment programs are all an essential complementary activity of the World Bank, in particular IDA, to ensure that we not only address the poverty problem in its broadest dimensions, but that we address it, as well, in the particular circumstances where it arises in various segments of the populations in developing countries.

Let me say a few words about IDA, Mr. Chairman, because you have already noted that this hearing today is particularly timely, in light of the markup this afternoon in the Subcommittee on International Development, Finance, Trade and Monetary Policy of the House Banking Committee, of the authorizing legislation for IDA.

I would like to underscore that the International Development Association, IDA, is our central instrument internationally to attack poverty. It is fortunate in some respects, Mr. Chairman, that we have just completed this replenishment of IDA resources—this negotiation for the replenishment of IDA resources—the authorization for which is before the Banking Committee today, because it has given us an opportunity to advance our agenda on poverty and to advance the objectives in the legislation which you referred to earlier.

Indeed, that legislation clearly states that these replenishment negotiations provide an appropriate opportunity, a vehicle, to advance our agenda, and we used it in just that fashion. We were successful in attaining agreement and language in the IDA-9 negotiations on strengthening poverty, alleviating efforts through projects, analysis and policy dialog—and through the process of allocating IDA assistance to those countries which are doing better than others in attacking the problem of poverty.

Let me amplify, if I may, the important role IDA plays. IDA is the single largest source of development bank lending on concessional terms. Since its inception three decades ago, IDA has played a pivotal role in alleviating poverty and enhancing development and growth in the poorest nations. Because of the limited availability of funds, IDA concentrates its efforts on those countries where per capita incomes are the lowest.

At this point, operationally that means that IDA lending goes to countries where per capita incomes in 1987 dollars were $580 or less. In fact, the overwhelming majority of lending by IDA goes to countries where per capita incomes are less than $400 per year, most of which are in sub-Saharan Africa and Asia, although there are some of those countries in this hemisphere.

In its early years, IDA financed infrastructure to provide the basis for industrialization and growth. Over time it was recognized that it would be beneficial to complement the emphasis on economic growth with a more specific focus on poverty alleviation. As a consequence, in the early 1970's, IDA began a major expansion in lending for rural development, financing projects to assist small farmers to increase production and income.

Substantial resources were provided for areas such as irrigation, rural roads, and agricultural credit programs. Poverty alleviation efforts also extended to urban areas, through financing for projects in small scale industrial development and basic infrastructure in areas inhabited by the poor.

In the social sector, which then and now remains fundamental for the solution of the poverty problem, education, health, water, and sanitation lending was reoriented to help increase human capital, and thus, the productive capacities of the poor.

During these recent negotiations, Mr. Chairman—and it was fortunate, indeed; as the legislation was being considered by the various committees and by the full House of Representatives, we were not only aware of that legislation in its draft form, but we engaged in a dialog with members, with staff, and with particularly interested nongovernmental organizations, Mr. Chairman, to ensure that as we proceeded in our IDA negotiations, which concluded last December, that we took into account the legislation in its formative stage.

As a result, we were able to use those negotiations and frankly, to use the draft legislation under consideration by Congress at that time, to advance our agenda. Other donors agreed with our initiative in this negotiation that a country's commitment to poverty alleviation should be given greater weight in determining lending allocations. IDA's allocation formula now explicitly takes into account country commitment to poverty reduction efforts.

If I may, Mr. Chairman, I'd like just to cite briefly a couple of references from the report which we negotiated in connection with this replenishment. We identified three program areas, and only three, for higher priority in the negotiation of this replenishment negotiation, which, if supported by Congress and other countries, will provide billions of dollars in new funding—over $3 billion from the United States alone.

The first area of higher priority listed in the IDA report is poverty reduction, which, as the report states, remains central to IDA's mandate. Donors encouraged an even stronger focus on poverty in IDA's programs and greater weight in lending allocation to poverty alleviation as an ultimate goal.

The donors stressed—this is the entire group—that IDA's lending program should continue to be focussed on the poorest countries and on the poorest sections of the population. IDA was asked to assure that poverty reduction will be central to its policy dialog with recipient countries, to encourage those countries to adopt measures to protect the poor.

Further, Mr. Chairman, the IDA report recognizes the importance of national plans and strategies. This has been an area of fairly recent interest and concern to the Bank and to IDA. We have listened to the concerns of many of those who follow this issue very carefully in both the public and the private sector, Mr. Chairman, and we are in the process, through the IDA legislation, and through the IDA negotiations, of advancing our agenda to encourage countries to develop and adopt national plans and strategies to eliminate the causes of and alleviate poverty.

It is not simply enough to have individual sector projects; it is critical that we have sectoral reform programs in these countries, which lift the overall level of income and growth, and it's equally critical that we have project lending to address the particular social sector needs.

At the same time, we feel that countries should develop their overall national strategies to alleviate poverty, and that the Bank can work with the countries in the development of these strategies and help them implement then through the provision of technical assistance and funding.

Let me say, Mr. Chairman, that I think we have made a major breakthrough in the IDA negotiations in advancing our agenda. Of course, much remains to be done in implementing the language in this report, which I just read to you. I would underscore the importance of active support by members of this committee, some of whom, of course, are members of the Banking Committee, as this IDA authorizing legislation moves forward.

There are members who are not as supportive of the objectives of this committee, and who do not, perhaps, perceive the direct and essential role which IDA plays in attacking the poverty problem. I would like to take this opportunity, therefore, to underscore the importance of active support of this authorizing legislation and the associated appropriations, which are part of the markup which will go before the House Appropriations Committee tomorrow.

IDA, of course, is the central part of the Bank's efforts to attack the poverty problem, but I think it is important to recognize that the entire World Bank operation is addressed to this problem, as well. Indeed recently, Mr. Chairman, just 2 months ago, the Bank issued a status report, "Poverty Reduction in Bank Operations," which provides some very helpful illuminating information on the Bank's basic strategy and its many operations throughout the world in poverty reduction.

Within a month, Mr. Chairman, the Bank will issue its 1990 World Development Report. That report this year is focused on poverty and will provide a great deal of information on the Bank's activities and efforts. I will not take your time at this stage, Mr. Chairman, to go through in detail the various Bank operations in this area. I think it is clear that the Bank's operations are quite extensive. Indeed, we are moving for an increase in the total amount of social sector lending, which is particularly important.

This will increase from 18 to 25 percent of total Bank lending. That is roughly $5 to $6 billion per year, Mr. Chairman, of Bank lending that will be directed to the social sector as we proceed over the next few years. This does not include some of the projects in other sectors beyond the social sector which, also, directly affect the poverty problem, and this does, also, not include some of the structural adjustment lending which is so critical to ensuring that the scarce resources in these countries be put to good use.

Frankly, if these developing countries do not deal effectively with their budget problems, if they do not deal effectively with the misallocation of resources, then we have little prospect of actually being able to direct resources where they are needed.

That is part of the broader mandate that we feel that we must pursue to attack the overall issue of resource allocation to ensure, particularly where these resources are scarce, that budget resources are available to attack the poverty problems that exist in these countries.

Let me conclude, Mr. Chairman, if I may, by reiterating the administration's strong support for the objective of this committee and the objective of the legislation which was passed last year on poverty.

We are working actively in the World Bank, and as we proceed in negotiations with other regional development banks, we will extend our effort into those areas as well, to ensure that not only IDA and the World Bank, but the Asian Development Bank, the African Development Bank, and the Inter-American Development Bank are equally sensitive to the need to focus on the poverty problem as a major priority issue in their efforts.

We look forward to continuing to work with your committee, Mr. Chairman, as we address this fundamental human problem. Thank you very much.

[The prepared statement of Mr. Dallara appears at the conclusion of the hearing, see p. 43.]

Mr. HALL. Thank you, Mr. Dallara. In reading your report, I have noticed that it is very optimistic, upbeat, and very positive about many of the things that are going on at the Bank. And yet, there are more people that are poor and hungry in the world today than ever before. In the decade of the 1990's, there will be 100 million children that will die. Why are you confident that the 1990's are going to be any different than the past?

Mr. **Dallara**. Mr. Chairman, I would perhaps characterize my approach to this problem at this stage as more hopeful than confident. I am hopeful because I do think that a great deal of progress has been made in understanding the basic underlying problems which generate poverty and in understanding the most effective way to attack those problems.

I'm also hopeful because there is increasing evidence that leaders in the developing world are aware of the need for efficient resource allocation, and aware of the need for programs in the social sector which attack the poverty problem.

I think it's critical, however, that the activities of the World Bank and these other banks be embraced by the leaders of developing countries, because in the end the World Bank can only do so much to advance the poverty agenda unless there is a commitment in the leadership of the governments involved, and as I think you are as aware as we are, there is certainly a record of inconsistency in this area.

And we need to work with the leadership in these countries. We need to encourage them to make poverty a matter of priority in their own governmental operations and in their budgets, because no matter what priority the Bank attaches to them, unless there is a commitment at home, locally, the Bank's activities may not be fully successful.

Mr. **Hall**. Do you find that when you visit other nations and talk to the leadership, and the World Bank does, too—that they are receptive to talking about poverty alleviation in their own country, for the most part, or is do you feel like you're fighting a battle uphill when you're talking to them?

Mr. **Dallara**. Well, it's a mixed reaction, Mr. Chairman, to be quite honest with you. There is a certain level of receptivity, but also a sense that these are some of my internal problems that I will try to address. We're pleased that the World Bank is prepared to support us in this effort. But at times, I certainly have perceived a reluctance to become openly engage concerning these issues.

And of course, to be quite honest again, you know, leaders have their own sense of priorities. And certainly, with some we have met at the head of state level, and the finance minister, and central bank governor level, there is a great deal of sensitivity and awareness of this problem.

There's a great deal of support for lending into the social sector, a great deal of enthusiasm for the various activities of the World Bank dealing with health and nutrition, education, and the role of women in development.

Other leaders would view these matters as matters that are prerogatives of the government and not ones about which that they would particularly wish to engage in a very detailed dialog with us, Mr. Chairman.

Mr. **Hall**. One of my—go ahead.

Mr. **Dallara**. I'm sorry. I was just going to say, I might add one further word that gives me a reason for hope. I really do believe that over the three decades of IDA operations, and partly as a result of the increased awareness of this problem that has been brought by this committee's efforts, by the NGO's activities in this country and in other countries, that there really is, I think, a greater awareness of the need to try to effectively blend the operations of these multilateral institutions; blend that is, the structural adjustment lending that is designed to promote an efficient allocation of resources, to free up rigidities and to enable the marketplace to generate growth, to blend those activities with lending into the social sector with targeted activities that specifically focus on pockets of poverty that also need particular attention.

And I think that the Bank is developing greater experience and greater efficiency in learning how to blend those various activities in an effective way that can lift countries, and the people in these countries, out of poverty.

Mr. HALL. One of the criticisms that I've heard more than once about the Bank—as a matter of fact I've heard it personally as I've traveled in various nations, is that the Bank comes into a country and they set their own agenda and they decide what they're going to do in the country, and they do it.

They don't necessarily listen to the people—not only the NGO's, but the people in the country that need this particular project or this particular work.

Is that a valid criticism, in your opinion?

Mr. DALLARA. Well, let me say a word and ask Mr. Coady to add to it, Mr. Chairman.

I think certainly the Bank has its own sense of priority activities that may be needed in the social sector. And they would certainly visit any country with a sense of the need for, you know, health and population, environmental activity, rural development, primary education.

These may well be on the list of activities which the Bank wishes to pursue in these countries. But Bank activities in these developing countries really are dynamic. They are simply not a function of the Bank coming in and saying, "This is where we're going to provide our project lending. This is where we're going to provide our sector lending."

They are clearly a reflection of give and take between the Bank management and staff in the countries. And I think the Bank programs in these countries ultimately do reflect give and take between the Bank management and the leaders in these countries, in terms of the particular areas of activity.

Pat, do you wish to add a few words to this?

Mr. COADY. Yes, I would say that probably historically it was more true than it certainly has been during my tenure there. I think that there is an evolution in the way programs and strategies are put together. There is a much greater recognition of the fact that if there's not a country commitment to the program, it has much less chance of success.

So that dialog is much more critical, and certainly at the board level, we see this and preach this.

An important aspect of the Bank's work is, it has an incredible ability and resources to do economic and sector work within countries that countries can't do for themselves in a sense. So the Bank provides—whether it's within the transportation sector, or the social sector, or the education sector—a lot of the research working with the country.

And, of course, this then becomes a framework for debate. And it's always hard to distinguish, as I see it, between cases where, in fact, the Bank may be on the right track of things, and it may not be politically fully acceptable by the country. So sometimes when I see complaints coming from countries, I don't always see them as valid complaints.

On the other hand, there are cases where I think it's clear that without commitment by the country, these programs won't have the enthusiasm of implementation that's needed, because all reform programs are tough. These developing country projects are tough projects to implement.

Mr. HALL. Do you have any questions?

Ms. LONG. I do, but I—is there time? I don't know how long it takes to walk there.

Mr. HALL. We can do it in 6 minutes.

Ms. LONG. I do have a question.

Mr. HALL. I give the floor to Ms. Long.

Ms. LONG. Thank you. Could you give some examples of some specifics of what the World Bank has done to alleviate hunger, and particularly what it has done with regard to women and children, who are those most affected?

Mr. DALLARA. Let me, if I may, Congresswoman, attack that problem with a specific emphasis that you, yourself, put on it—the women and children problem. Increasingly, the Bank has focused on the problem of women in development, as well as the need for direct support of children.

And as I look through the various Bank activities, I think you find in all regions of the world, really, particular programs designed to address this problem. Let me give you a few examples, if I may.

In Bangladesh, right now, the Bank is pursuing a program on strengthening the role of women in development. It is directly designed for women to help identify and promote particular opportunities for women to benefit from development intervention. As the Bank comes in with educational programs, as the Bank comes in with health and nutrition programs, the Bank can identify ways that women, in particular, can benefit from these various programs.

Ms. LONG. Can you be more specific that? Can you be even more specific?

Mr. DALLARA. Well, I can try to provide you with further details of it, if I could. I mean, let me give you one more example, and then ask Mr. Coady if he would like to join in it.

The basic issue of women in development is partly an issue of education. The Bank has had a number of programs throughout the developing world, particularly in Asia, where it has focused specifically on the provision of educational opportunities for women, so that they can take advantage of the rising opportunities that are inherent in development and growth.

These specific opportunities in education provide, sometimes, direct credit in a subsidized or grant fashion for women to take advantage of educational opportunities. It provides administrative support for women to take advantage of educational opportunities. This is a particular example that I might offer to you.

Pat, do you want to add——

Mr. **Coady**. Well, two themes. The Bank, in recent years, and I'm seeing this increasingly at the board, every loan that comes through—we have asked for this basically—has a chart of social indicators: infant mortality, caloric intake, educational level, charted over time so that we can have some benchmarks for progress within a country.

However, there are a lot of problems in gathering valid statistics so that you know, in fact, that this progress is being made or not being made. And within the area of food security in agricultural lending, it's an increasing area of Bank lending.

We could provide the statistics on the projections for the next 3 years, and that is a priority effort for the Bank. As Mr. Dallara says, we do have this recent operational report of the Bank, which shows the projects which are currently in the pipeline, and expected to come forward in the next 3 years and identified.

Some of them are, specifically, women in development, child nutrition. There are projects—and we can go through by country—on poverty alleviation, and various safety nets connected to adjustment. So, from that information, we can provide you——

Mr. **Dallara**. Let me add one further word, if I may. Mr. Coady mentioned the area of child nutrition. Indeed, as I see, as I refresh my knowledge of some of the particular loans in these countries, I see a loan in India, and there's a similar loan in Bangladesh, I think, and in other parts of the world.

There is a nutrition—a World Bank-funded nutrition program which is directly focused on identifying the nutritional needs of children in the poorest areas of the country, and designed to try to help find ways to address those nutrition needs.

Obviously, the educational programs as well as many of the other rural development programs, are designed primarily for the younger population in these areas, I mean, traditionally, we've found, of course, and it still exists today, that the rural areas are a predominant area of poverty and many of these nutrition and education programs are focused on the rural areas.

Mr. **Hall**. Mr. Faleomalvaega is going to preside. The three of us are probably going to have to go vote. We'll be back shortly.

Mr. **Faleomavaega**. I'm going to go ahead and pinch hit for the chairman in his absence.

What assurance is there that the loans go directly to the needs of the poor, and not to the corrupt officials of some of these governments?

Mr. **Dallara**. What was your question, Mr. Chairman?

Mr. **Faleomavaega**. What assurances are there that the Bank loans given to these countries go directly to the needs of the poor, and not to corrupt officials, necessarily?

Mr. **Dallara**. Well, the Bank disburses funds under its programs only in the context of a very tightly monitored operational procedure.

Perhaps Mr. Coady can elaborate on this, which really does seek as best we possibly can to assure that the funds are used for the purposes intended; when we're talking about a nutrition program, that the funds actually do address the nutrition problem; when we're talking about improving the quality of care at a hospital, that the funds actually do arrive at the hospital and are available to the hospital administrators.

Of course, in the world in which we live, Mr. Chairman, there is no perfect protection, and I cannot assure to you that there are not occasions of abuse, but I can assure you that the World Bank makes a strenuous effort—and an effort which I think largely is successful—in trying to avoid this.

Mr. **Coady**. Yes. Let me just add, I think one of the strengths of the Bank in their specific programs is, that as disbursements are made, there is a very careful auditing system for most projects. And invoices are presented and budgets are reviewed fairly carefully, and they are followed up with project completion reports. And there is a separate kind of internal auditing operation in the Operations Evaluation Department, which goes in and looks at these issues over time.

I think the real problem is that while a specific project may be implemented with a high degree of integrity to the extent it replaces funds used elseplace [sic] in the government, which the World Bank doesn't have any control over, you can have a wide range of abuses occurring alongside, but not related to the World Bank project.

Mr. **Faleomavaega**. Would you care to comment about how much of a percentage of success ratio we have had in dealing with those countries that are not necessarily sincere in their efforts in helping the poor and not go into the pockets of some of these corrupt officials that we hear so much in the media over the years?

Has the Bank had an 80 percent success in curbing these kind of problems, or is it just a matter of reporting that we really don't know?

Mr. **Coady**. Mr. Chairman, I know I haven't seen any statistics on this.

Mr. **Dallara**. Any guess I could hazard, Mr. Chairman, would probably not be particularly accurate.

Mr. **Faleomavaega**. Why don't you wing it?

I noticed, also, in the report that IDA is composed of 130 member countries, and that the United States is a member of that association?

Mr. **Dallara**. That is correct.

Mr. **Faleomavaega**. What influence does the United States have on the members of the IDA?

Mr. **Dallara**. Well, a great deal. I mean, we are the largest—I guest we're right—Japan is very, very close to us now. But we, historically, have been the largest creditor to IDA in that role, and our obligation as a creditor really is to ensure that these moneys are used to advance the basic agenda that we have in the developing world. And that agenda is one of promoting growth and development in the context of addressing the problems of poverty and the environment.

We have just concluded a negotiation on a new replenishment of IDA, Mr. Chairman, and in this replenishment negotiation, because the occasion——

Mr. **Faleomavaega**. You said negotiation. Can you clarify that? I mean, who do you negotiate with, yourself? Or is that——

Mr. DALLARA. Well, we do a fair amount of actually negotiating within the administration, Mr. Chairman, which actually sometimes is as difficult as negotiating internationally, but then, of course, we negotiate with Congress to try to convince you that we've reached a good agreement. But, no. The actual negotiation, though, is with the other donors, the other creditors, those who contribute funds to IDA, sit in a room—and Mr. Coady and I spent untold hours doing this last year, along with some of our colleagues——

Mr. FALEOMAVAEGA. But we're the majority stockholder, right?

Mr. DALLARA. We're the majority stockholder and, therefore, we see these replenishment negotiations as an occasion to advance our agenda. Indeed, we advanced the poverty agenda last year. We were able to secure certain commitments that IDA operations would be oriented more than ever before toward poverty reduction as a result of these negotiations.

Mr. FALEOMAVAEGA. Would you say that our effort has always been consistent in terms of addressing poverty more so than ideology differences with some of these countries? I assume that among these 138 members are communist countries, and we do provide assistance to the needs of those communist countries.

Mr. DALLARA. Well, there are certainly some communist members of the World Bank, although the number is dwindling every day, it seems. And there has been assistance. Our objective in these negotiations certainly is not to engage in ideological debates, but to find common ground on which to attack the problems. And we feel like we've made some real success at that.

I mean, one of the real problems that you have in many of these developing countries, Mr. Chairman, is that even though they may be willing to participate with the World Bank in a particular sector project loan addressing a social services problem—perhaps sewerage, perhaps quality of potable water, perhaps in the educational area—that they have been unwilling in the past to engage in a broader dialog to see to it that the broad economic framework in that country is oriented toward poverty reduction, and is oriented toward promoting investment and growth.

Now we have put forward a proposal and IDA donors have agreed to this, that every year all countries with significant borrowing from IDA must undergo a wholesale review of their economic policies, and one aspect of that review will be to look and see just what this country is doing to attack poverty.

Mr. FALEOMAVAEGA. Do you emphasize that the economic ideology has to be more in a capitalistic point of view rather than socialistic? What happens if some of these countries just cannot do the capitalism ideology that we have always advocated as part of the economic system?

What I'm saying is some countries may be—just on the basis of socialistic approach, may be more successful than you would be in a capitalist-free enterprise system. Am I wrong in that?

Mr. DALLARA. Well, they may be, but the evidence is not terribly persuasive. I mean, if we look at the record of countries——

Mr. FALEOMAVAEGA. Cite a specific example. Prove me wrong in this.

Mr. **Dallara**. Well, if you look at the two countries which are right at the bottom of the list of countries having the lowest per capita income in the entire world, as evidenced by the recent World Bank Development Report, you see Madagascar and Ethiopia. These are countries, both of whom, have run heavily socialist——

Mr. **Faleomavaega**. You say Ethiopia?

Mr. **Dallara**. Excuse me? Mozambique and—I'm sorry, not Madagascar, Mozambique and Ethiopia. These are countries that have run heavily socialist-oriented policies. You'll also find that countries such as Ghana as well as Tanzania—which for years ran policies that were not very capitalist-oriented, have turned away from this approach, and have probably benefited from it.

The bait again, though, is not one of ideology, but one of pursuing effective policies, and we strongly believe that the most efficient way to allocate resources is on a market-based approach. And frankly, we don't seem to have a big difference of view with most borrowing members of these organizations today in this respect, because most of them have embraced to varying degrees a market-based approach toward economic policy.

Mr. **Faleomavaega**. I've got a real problem with Ethiopia, since you've cited that as an example. Here we are concerned about the poverty situation existing there and the government continues to bomb and intimidate and do everything to prevent the people from getting the food that we've been providing for the last how many years? I mean, at what point do we say, enough is enough?

Mr. **Dallara**. Well, I think——

Mr. **Faleomavaega**. Here we are sincerely trying to help the poverty-stricken people in Ethiopia, and yet the government and the guerrillas continue killing each other off. I mean, do you see a cycle? I mean, it's a Catch 22.

Mr. **Dallara**. It poses a tremendous dilemma for us, Mr. Chairman. I mean, in effect, we have already said enough is enough in a certain sense, that the general lending activities of the World Bank—the general project lending and the policy-based lending—has been cut back in light of the basic unwillingness of the government to cooperate on economic policy reform.

We have felt, however, that certain targeted efforts of the Bank, in a very limited way, trying to go around the government, if you will, and directly address the problems of the hungry and the needy are still worthwhile. I must say that there is a great deal of frustration in attempting to implement, both in our bilateral program and our multilateral program.

Mr. **Faleomavaega**. Maybe I'm generalizing the issue, Mr. Secretary, but let me just put this Ethiopia issue—the government gets all its arms from the Soviet Union. We try to supply the food to the poverty-stricken people of Ethiopia. The government turns around and shoots any efforts on the part of the western countries in bringing the food in to help the women and the children.

And I just can't see where—how we justify. What? We've given over $10 billion worth of aid to Ethiopia, and what has it done for us? Absolutely nothing. They still continue to kill each other off. And yet the women and the children continue to die of starvation.

Where does poverty come into play with this? I mean, it's just—how much longer are we going to be—it's just like dropping into an endless pit——

Mr. **Dallara**. Well, Mr.——

Mr. **Faleomavaega** [continuing]. With no real results.

Mr. **Dallara**. Mr. Chairman, I certainly share your basic sense of concern and frustration. I think the dilemma is whether or not in a circumstance like that, one can still accomplish some good by containing, if not alleviating, the problems of starvation and poverty which exist. And that has been, I think, the focus of the effort; one of trying to work around the government, if you will, to try to contain the problem and prevent it from even spreading to more hundreds of thousands of people dying of starvation.

Mr. **Faleomavaega**. In the Asia region, what—is it Southeast Asia, or is it South Asia where most of these loans are given by the World Bank?

Mr. **Dallara**. Well, there is a substantial component of it which does go into Southeast Asia.

Mr. **Faleomavaega**. I notice 44 percent goes to Asia. That's quite—that's pretty big. Can you cite some of those countries in Asia that are given——

Mr. **Dallara**. Yes. India, Bangladesh, Nepal.

Mr. **Faleomavaega**. India?

Mr. **Dallara**. India, Bangladesh, Nepal, Indonesia, Sri Lanka, China.

Mr. **Faleomavaega**. These are poverty-stricken countries? Indonesia? India?

Mr. **Dallara**. There are certainly areas of poverty in Indonesia. Yes, sir, Mr. Chairman. I mean, all of it is relative. But certainly, these countries all—I don't think there's a tremendous amount of lending that goes to Indonesia, but Indonesia does receive lending for purposes of basic education——

Mr. **Faleomavaega**. I see.

Mr. **Dallara** [continuing]. Population control issues, and other areas, but obviously India and China are——

Mr. **Faleomavaega**. Could you provide that for the record? I'm sorry.

Mr. **Dallara**. I'd be glad to submit that for the record.

Mr. **Faleomavaega**. What about countries in the Pacific? Do they get any loans? By Pacific, I mean Oceania. Little dotty, little island countries out there, with no water; at times, even no volcanic structures, just atolls and all of that little stuff.

Mr. **Dallara**. I'm sure they do, Mr. Chairman. I don't know if we have any numbers here before us, but I'll be glad to provide you some further information. Among those that are listed as recipients of World Bank and IDA projects in that region of the world are Papua New Guinea, Vanuatu, Western Samoa, and there may be a few other countries in that region of the world.

Mr. **Faleomavaega**. Could you provide, also, that for the record?

Mr. **Dallara**. I'll be glad to, Mr. Chairman.

Mr. **Faleomavaega**. I note that the sub-Saharan Africa region seems to be the worst in terms of the problems affecting the needs of the people there. What is the Bank doing to address the particularly devastating effects of poverty in sub-Sahara Africa? What do you think the prospects are for that region?

Mr. **Dallara**. Well, in terms of the Bank's operations, the operations there are concentrated, or I think designed, to attack the problem of poverty in two broad respects. One is the Bank is engaging in quite a wide range of structural adjustment loans to attack inefficiencies in industrial production, to attack inefficiencies in the marketing system and so that the farmers that are able to produce their crops can get them to market and get a decent return for their efforts.

They are attacking inefficiencies in the trading system, and trying to encourage sounder policies on fiscal and monetary policies, so that there is more incentive for investment, both domestic investment and foreign investment. I think these efforts in the structural adjustment area are critical to generating investment and growth.

In addition, the Bank is engaged in quite a wide range of specific social sector lending activities as I described in Asia, Mr. Chairman, to address problems of health, nutrition, education, housing, and other particular social areas where the poverty problem is very acute.

Mr. **Coady**. I'd just add two things, Mr. Chairman. On the item of negotiations, there is a specific provision for small island economies to benefit from IDA funds disproportionate to their population, to take account of their special circumstances. So, that's been the policy of the Bank, both in the Caribbean and in Oceania, to address that.

In the sub-Sahara Africa area, it's obviously one of the most difficult development challenges, I think, facing the next 10 to 20 years. As a result, 50 percent of the IDA funds are targeted toward sub-Sahara Africa. World Bank, this year, published a major appraisal perspective on long-term sustainable growth in sub-Sahara Africa.

While it lays out a program of action with some degree of hope, the World Development Report projects between now and the year 2000 the one area where there's probably the greatest prospect for increased poverty is in sub-Sahara Africa. So, it's a very serious problem.

Mr. **Faleomavaega**. Am I correct in my readings that we do provide about 17 percent of the total funding of the World Bank activities?

Mr. **Dallara**. The United States?

Mr. **Faleomavaega**. Yes.

Mr. **Dallara**. That sounds roughly correct, Mr. Chairman.

Mr. **Faleomavaega**. OK. In doing so, do we also give as much initiative for our experts' companies that do sewerage, water? That all these areas in terms of—in other words, we're sending, exporting our expertise abroad to those poverty-stricken countries——

Mr. **Dallara**. Well, we certainly——

Mr. **Faleomavaega**. Do we do that?

Mr. **Dallara**. We certainly do, Mr. Chairman. We've probably been a little slower than some of the Europeans and the Japanese to develop this mercantilist trait to a fine art, but we have——

Mr. **Faleomavaega**. That's exactly my point, Mr. Dallara.

Mr. **Dallara** [continuing]. But we have certainly increased our effort, and in fact, Pat Coady's office works very closely with the Commerce Department and others, to try to ensure that procurement opportunities for U.S. firms in the provision of technical assistance, and the provision of engineering facilities, and the provision of expertise as made available.

Mr. **Faleomavaega**. Do we have that as a matter of administrative policy or by statutory requirement that we should give priority to the experts that we have here in America, to share that expertise with these countries that have those needs?

Mr. **Dallara**. I know we've certainly——

Mr. **Faleomavaega**. The reason I say that, because the Australians are doing it very well. The Japanese are doing it very well. Why aren't we doing the same?

Mr. **Coady**. Well, Mr. Chairman, I will add that this is an area where—when I, a year ago, took office at the Bank, there was a new system which was put forward where a special trade representative from the Department of Commerce is in each of the offices of the developing banks. And we have our representative there, and it's, I think, thus far made a big difference.

We have a conference that we are sponsoring at the end of July particularly on environmental issues for U.S. suppliers and contractors. But we need to do more of it, frankly, but——

Mr. **Faleomavaega**. Well, that's the very point. Let's not have 100 more conferences before we make the decision. The point I'm making is that there is absolutely no reason why we cannot use such tremendous resources that we have, and then giving the subcontract to some other foreign country whose expertise may not be as good as ours.

In other words, this is part of our deficit problem that we have. We've given money away. The money should actually stay back here with American companies. A lot of companies complain to us about this.

Why is it that they are not given the same parity or sense of equity in bidding for these projects where they are available? And many—because, "Well, we can't do it. We have to allow other countries to do the same." I just don't understand. Do we have it as a matter of policy by the administration? Do you need more statutory authority to really give you more pinch on this?

Mr. **Dallara**. We certainly have it as a matter of clear policy that we encourage U.S. firms to bid, and we work very vigorously to ensure that they have a fair and competitive opportunity for bidding for these projects, Mr. Chairman.

Mr. **Faleomavaega**. The chairman has been addressing the fact that 17 percent of the funding of the Bank comes from Uncle Sam, and I just felt that certainly that 17 percent ought to go to American companies, American experts, American consultants, American—just as it is true with Australia, Japan, all other countries of the world.

And they give foreign aid. In actuality, they give foreign aid, but the money actually stays back home, because they get their own experts doing those projects. And I just can't understand why we don't do the same in our own country. That's the gist of my question.

Mr. Chairman, I turn the chair back to you.

Thank you, Mr. Secretary.

Mr. **Dallara**. Thank you.

Mr. **Hall**. I'd like to ask one last question. It's something that I don't quite understand. What is the relationship between the U.S. Treasury, the directors, and the Bank?

Mr. **Dallara**. Well, fundamentally, of course, the U.S. Government is the largest stockholder of the World Bank and, therefore, our executive director at the World Bank, who formally represents the U.S. Government there, casts the vote on behalf of the U.S. Government and carries the influence of the U.S. Government in his day-to-day operation.

Mr. **Hall**. That is Mr.——

Mr. **Dallara**. That is Mr. Coady. Mr. Coady reports to the Treasury Department. Technically, Mr. Coady receives his policy guidance from the Treasury Department. The Secretary of the Treasury, Secretary Brady, is the U.S. Governor of the World Bank. So, in effect, Mr. Coady is the U.S. Director, as Secretary Brady is the U.S. Governor, providing policy guidance. Formulation of that policy guidance is, of course, an interagency process, led by the Department of the Treasury.

But on a day-to-day basis, I work very closely with Mr. Coady to provide policy guidance and to work with him in his efforts implementing, as do my colleagues at the Treasury Department.

Mr. **Hall**. OK. Thank you for your time.

Mr. **Dallara**. Thank you very much, Mr. Chairman.

Mr. **Hall**. The second panel today consists of Father Hehir, professor of ethics at Georgetown University; Maurice Williams, Senior Fellow at the Overseas Development Council; and Chandra Hardy, formerly with the World Bank, and now vice president of the International Development Training Institute.

We thank you for coming, and if you'll take a seat, we thank you for your testimony. And Father Hehir, we will start with you.

STATEMENT OF REV. J. BRYAN HEHIR, PROFESSOR OF ETHICS, KENNEDY INSTITUTE OF ETHICS AND SCHOOL OF FOREIGN SERVICE, GEORGETOWN UNIVERSITY

Father **Hehir**. Thank you, Mr. Chairman. I appreciate the opportunity to testify in this hearing. As I indicated in my written testimony, which I ask to be submitted for the record, I think I was invited because of an earlier testimony I gave before the House Banking and Finance Committee on the debt question.

When your staff invited me to testify, I stressed that particularly the other members of the panel that are with me today know immensely more about the details of the empirical performance of the Bank, and the roots and structure of poverty in developing countries, and the world, and that what I could, perhaps, best do, is to comment a bit on the significance of the legislation you're examining today retrospectively; examining its performance, Public Law 100-240, in light of a wider context of world politics and foreign policy choices that face the United States.

So, let me, in the moments I have available to me, say a word about why I think the legislation is significant and needs to be pursued vigorously, precisely because of the political context we face today at the opening of the 1990's; second, to say a word about the implementation of the legislation; and third, to say a final word about U.S. policy debate.

It seems to me the significance of the legislation that we are examining, which is now 1 year old, is that it has a two-fold significance. It is significant procedurally and substantively. Procedurally, I think this legislation is significant because of both of the kind of development it seeks to promote, and the place that it seeks to provide for the poor in the wider setting of world politics.

The legislation arose out of conversations among parties that often don't have sufficient dialog: nongovernmental organizations, the Congress, the Treasury, and the World Bank. I think that kind of conversation, producing a piece of legislation like this, is a significant victory in itself.

The substantive view of the legislation as I read it, is to promote a specific type of dialog, a specific type of development—development that begins with the poor and development that is measured precisely in terms of the impact of any development program, international or national, on the poor.

That view of development, it seems to me, is precisely in itself a significant kind of proposal to be pursued by the Bank and U.S. policy.

The final point of the substantive significance of the legislation, I think, is the place it seeks to give the poor in the wider pattern of world politics. That's what I'd like to say a word about.

To stand at 1990 and to look at foreign policy choices is to know that we stand at a fault line in world history. Because of what happened in the end of the 1980's, the 1990's are like other key periods in international affairs: 1815, 1919, 1945. What makes the 1990's like those other periods is, we are faced with the possibility and the necessity of shaping a new international order.

Every period of crisis has been followed by the shaping of a new order. An order will take shape in the 1990's that is different than the order we have known for the last 45 years. The question of the place and role of the poor in the shaping of that order, it seems to me, is precisely the opportunity, the possibility, and the necessity that the specific piece of legislation that we're looking at points to.

Where will the poor fit in the wider pattern of order as it takes shape in the 1990's?

The new order has to take shape because the old order we have known has collapsed. That order, from 1945 until 1990, had three specific goals. It had a security goal. How do you preserve the freedom of the West and avoid nuclear war?

It had a second, economic goal, which was how you reintegrated Europe and Japan into the international economic order?

And it had a third economic goal, which was how you provided for the new nations that emerged after 1945, in terms of the international economy; how you provided for the welfare of their people?

I think in 1990, the judgment I'd make is that the old order had two major successes and one failure. The success in the first instance, was the security success, the preservation of the liberty of the West, and no nuclear war.

The second major success is the status of Japan and West Germany as robust economies. In that sense, the old order did very well.

I think in terms of the third objective, the incorporation of the new nations and their people into the pattern of international politics and economics, and particularly in terms of the welfare of their poorest people, I would judge the old order to be a failure.

I know that some will dispute the judgment. World Bank statistics illustrate that in the aggregate, living standards have risen over the last 25 years across the developing world. But when one looks more specifically at the data, I think the judgment of failure stands.

We now, using World Bank statistics, have 800 million to 1 billion people living below the poverty level—the absolute poverty level—of incomes of $375 or less.

A recent U.N. General Assembly judgment on the status of the developing countries was that the 1980's constituted a lost decade, at least for sub-Saharan Africa and for Latin America. And in the earlier testimony I referred to before the Banking Committee, one of my colleagues was Mr. Richard Jolly from UNICEF, who argued that if you looked at the 1980's, the people who paid the price for adjustment and conditionality and overcoming the debt in developing countries were, precisely, children.

Now, I think with that kind of data, you have to make a judgment that the third objective of the old order simply failed to reach its realization. The significance of the existing legislation we're looking at, is that as you start to shape a new order, there is the precise possibility of taking the unfinished agenda of the third objective of the last 45 years, and giving it new priority and new place in designing the shape of international affairs.

Let me turn to that for just a minute. In the shaping in the new order, it seems to me that the first thing we run up against, is the context of international politics in which any policies made by the banks, made by the United States or other governments, will have to occur. That context is an increasing interdependence of the international system.

Interdependence is a product of technology, communication, and an integrated global market. Interdependence by itself does not create justice within countries, or within the international system. The challenge of interdependence that we face in the 1990's is that in a factually interdependent world, we don't live with moral interdependence. That is to say, we have failed to be able to shape rules and relationships which guarantee a minimal standard of living, at least, for everybody that inhabits this globe—not a maximal standard, but a minimal standard.

The condition of the 800 million to 1 billion people that live with incomes below $375 was once described by Bob McNamara as "beneath any rational conception of human decency." It's by that standard that the old order fails the test of humaneness and acceptability. It is by that standard that the new order will be tested.

Now, within an interdependent world, the question is how you shape the rules and relationships by which we will live together. I take this legislation you're examining as being an attempt to shape both the conception of U.S. policy for those rules and relationship, and the work of the World Bank as one of the leading international institutions in an interdependent world.

Within the context of interdependence, multilateral institutions take on new significance. Indeed, again, the legislation is important because part of the last 10 to 15 years of U.S. policy has been an increasing distance from a multilateral approach to several issues in world politics.

The legislation, I think, tries both to provide specific standards for how the Bank will operate, but it also provides a specific angle of vision for U.S. policy in terms of shaping policy in an interdependent world, both for the United States and for the institutions it supports.

In the paper, I've gone into some length in looking at three things that I think will be important that I will not deal with here, and that is the relationship with sovereignty, human rights, and human needs.

The effect of Public Law 100-240, it seems to me, is to argue for, on the one hand, protecting the legitimate sovereignty of poor nations as we help them to deal with the series of questions like death and development, and at the same time, making sure that the Bank in a sense has a more activist policy of examining the internal dynamics of developing countries receiving funds.

I think the legislation is complicated, but can be justified on both grounds. I think there needs to be a concern, for example, on the conditionality question that the conditions set are justified as legitimate in the face of the legitimate demands of sovereignty of poor countries.

At the same time, I think we've bypassed a day in which sovereignty is an absolute claim. Countries receiving assistance from outside should, in one sense, be forced to justify the acceptance of that assistance, precisely in terms of what happens to the poorest people in their countries, when we're talking about the kind of assistance that comes from IDA.

So, while I think the implementation of the legislation really calls for major review of central ideas of sovereignty, human rights and human needs, I think it's quite justifiable and, indeed, a step precisely in the right direction, of dealing with interdependence.

My final point is the legislation is part of U.S. foreign policy. The legislation, as I said, I think tries to provide a different place for the poor in international politics, a higher priority for the poor in U.S. foreign policy planning and its approach to the Bank's anthropolicy.

My fear is that as we shape the new order of the 1990's, the interesting issues of Europe superpower relations and the integration of the industrialized country's economies is going to be so exciting and so fixating in its attention that the kinds of issues that this legislation is aiming at are going to be increasingly marginalized. I think there's going to have to be a very specific effort to join the old East-West questions with the new North-South questions in the 1990's.

Part of what this legislation does is to try and force to the center of the policy agenda the conception the United States has of the new order as it affects the poorest people of the globe.

In that sense, I think the legislation is larger than it looks like. It looks like a specific piece of legislation affecting the United States and the World Bank, but the approach implied by this legislation, I think, in fact, calls the United States to think carefully about what it will say and do about the shaping of the new order that will happen in the 1990's, and what place the poor have in the conception of world politics and world order that we develop in the 1990's.

Thank you.

[The prepared statement of Father Hehir appears at the conclusion of the hearing, see p. 56.]

Mr. HALL. Thank you, Mr. Hehir.

Mr. Williams.

STATEMENT OF MAURICE WILLIAMS, SENIOR FELLOW, OVERSEAS DEVELOPMENT COUNCIL

Mr. WILLIAMS. Thank you, Mr. Chairman. I have long been an admirer of the work of this committee. It's a great privilege for me to appear. I have prepared a statement for the record, and I will merely make a few remarks in a summary fashion.

Father Hehir has spoken on the failure or the relative failure of the objective of Third World development in the last few decades, and it is certainly true that poor countries today are on a regressive path. Their economies continue to deteriorate. They did not benefit from the recovery in the mid-1980's of the industrial countries.

They are increasingly marginalized in terms of the world economy, in trade prospects, in terms of capital access, in terms of technology. Their incomes continue to fall, particularly per capita with rapid population growth.

Aid cannot possibly offset this loss of income in the poor countries and the best prospect for aid is that it must be directed to helping them to become more efficient with the total resources available to them—their own earnings, their own domestic resources, aid from the Bank and aid from the United States and the other donors, as well.

The necessity of reform, called structural adjustment, is widely accepted by Third World developing countries. They know better than anyone else that they face very difficult problems, and that they have to do their best to try to be as efficient as they can be in the use of the resources available to them.

The Bank took the lead in the early 1980's with structural adjustment. Indeed, the Bank was the first to use the term structural adjustment and began to relate aid to it, primarily because, without reform of the policy framework, the financing of the Bank and projects could not be effective.

As has been brought out in the earlier testimony, there is now a consensus on what needs to be done, a consensus in terms of a universal model of development. No longer is there a debate over whether it should be a socialist approach, or a capitalist approach.

American policy from the very earliest days has emphasized private sector development, human development, and broadening popular participation both in political and economic terms. That is now accepted as the universal model of development.

Growth and poverty alleviation are the objectives of that model of development. It's necessary to understand that structural adjustment reforms are not inherently antipoverty, although in the earlier approach of the Bank to structural adjustment, it was too narrowly focused on macroeconomic factors without broader consideration of the effects on the poor.

But the adverse effects on the poor are not just from adjustment, they are because of the continuing marginalization of the poor countries.

The initial calculation was that recovery would come to the poor countries as it had come to the industrial countries, recovery from the recession of the early 1980's. That calculation was wrong, and the problem is very much a long-term problem for the poor countries.

I believe that the Bank is now on the right track: "structural adjustment policies with a difference," that the approach has to be long term, that the developing country efforts are critical, and that growth and poverty alleviation must both be addressed.

I also believe that Public Law 100-240, the Productive Economic Participation of the Poor Act, has been very helpful in terms of emphasizing what needs to be done, encouraging growth with poverty eradication strategies, policies, or plans by the developing countries.

Mr. Chairman, the donors are part of the problem. U.S. aid is not directed to the poor in very large measure. Other donors also have many different objectives. They do not address in a concentrated way the priorities of developing countries even when they have a reform and growth with poverty strategy.

The donors distort the priorities in these countries in many different directions, and the countries are poor and very dependent on aid. And most of the aid is not multilateral; 70 to 75 percent of aid is bilateral.

Consequently, coordination of the totality of aid in relation to the resources of the poor countries is exceedingly important, that it be directed toward commonly agreed objectives and not distort the priorities of these countries so that they lose coherence.

The donors also are very directive. They have many ideas about what should be done. They are programming from the outside, taking responsibility away from the people who really should have it. Because these countries are so poor, they can't say no to any aid that's offered.

Donor directed aid not only distorts their priorities, but it undermines their own administration, their own self-reliance, their own capacities to carry forward with their development. Consequently, reform efforts have to extend to the donor policies, as well. Here the Bank has been playing an important role in terms of policy reforms, recognizing that they cannot be effective unless all the donors work together, unless their aid resources are coherently addressed to common objectives. The Bank has taken the lead in seeking to coördinate donor polices. Some progress has been made on that, but it is far from sufficient.

We must recognize that if the poor countries are to deal with their problems, they must have the central responsibility for their own programs. Programming from the outside does not work. It's arrogant, and as I said earlier, undermines developing country capacities.

The common agreement on what needs to be done in relation to aid, when aid is such a large part of their investment programs, has to be pursued through dialog on objectives and persuasion. Conditioning aid on the objectives for poor countries does not work, unless they, themselves, accept those objectives and carry them forward.

When developing countries are on the right policy track, moving in the right direction and seeking to coordinate donor aid and their own resources, then there's a good case for stepping up the level of aid in support of their objectives. When aid is not well directed there's no sense in faking it; there's no sense in trying to delude ourselves that progress is being made. Too often that is done. Aid in that case may still be necessary because of people—we do not want to see people suffer and aid becomes, in effect, welfare, not really addressed to development.

So, the point of coordinated discipline of the donor effort in support of growth and poverty alleviation and building LDC capabilities is, I think, central to the success of growth with poverty alleviation.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Williams appears at the conclusion of the hearing, see p. 65.]

Mr. HALL. Thank you, Mr. Williams.

Chandra Hardy.

STATEMENT OF CHANDRA HARDY, INTERNATIONAL DEVELOPMENT TRAINING INSTITUTE

Ms. HARDY. Mr. Chairman, thank you for the opportunity to speak before this committee. I have also written for the record, and would just like to make a few remarks from the text.

Mr. Chairman, we have lost the war on poverty. Despite the commitment, the efforts, numerous studies and billions of dollars of development assistance over the past 30 years, hunger and malnutrition are widespread. The income gap between the rich and the poor has widened, and developing countries are struggling to regain living standards of 20 or even 30 years ago.

I think the scale of the problem, Mr. Chairman, suggests that we have to look at what went wrong, what happened to all the resources that were spent? Were we wrong in the way we analyzed the problem, or how we went about trying to solve it, and who is to be held accountable for the failure?

We have to be looking at these questions, Mr. Chairman, in order to know whether we're going forward in any direction here, because despite the failure of development so far, poverty alleviation is still not at the top of the development agenda.

It comes, actually, after GNP growth, sound fiscal and balance of payments policies, privatization, and trade liberalization. It has no place in the policy framework papers which establish the lending programs of the MDB's.

The number of people living in poverty, Mr. Chairman, has doubled over the last 15 years. Reference has been made to 1 billion people. The number is nearer 1½ billion. These figures are always very exclusionary, but the trend is that in absolute numbers, poverty has doubled over the past 15 years.

But this is not the worst indicator. The worst indicator is that share of the population living in poverty has risen to 60 percent in Africa, in Latin America and in many countries in Asia, such as Bangladesh, Burma, Nepal, Pakistan, Afghanistan, Philippines, Vietnam, Cambodia, and Laos.

We don't have time to discuss why poverty of this scale exists, but I want to say, Mr. Chairman, while you discuss it today, poverty is not a recent phenomenon. It's not like a drought or a famine that has just come about by a special circumstance. It's been large and it's been there for a very, very long time.

The World Bank noted in the early 1970's that coming after 25 years of a world economy growing at 5 percent a year, we still had 800 million people being in absolute poverty.

So, we know that when the world was growing rapidly, we had this massive poverty problem that wasn't being addressed by focusing on GNP growth, because the benefits of that growth was not trickling down, and my purpose in raising this issue is to ask the question, are we doing anything differently now? Are we not, again, trying to regain growth as if that is somehow the answer to poverty?

We know that the period of the mid-1970's because of the oil price increases and the world recession, were particularly bad for the poor. On top of that came the 1980's and stabilization programs, which inflicted even greater hardships on the poor. The burden of adjustment which were cuts in expenditure, were borne disproportionately by the poor.

And on top of this, as Father Hehir has pointed out, the negative net transfer whereby the developing countries were transferring billions of dollars every year to the developed countries—rose to $50 billion in 1989. These were the special characteristics of poverty in the last 20 years.

I think the third point to be made about why poverty is a special problem now, is not just because of the absolute number and its share of the population, but because of the weakened capacity of the poor to do anything about this situation. I was one of the those people, like many here, who was on the front lines of this issue in the 1960's, and we were terribly optimistic. The world was, after all, doing terribly, terribly well, and we thought we knew all the ways to address this issue.

I think what is extremely disheartening in 1990, is not just the size, as I said, Mr. Chairman, but the sense that the poor really can't work their way out of this problem. GNP growth alone won't do it given the size of the problem, and if we continue to address the issue the same way that we did before, it is guaranteed that 10 years from now, we'll be having exactly the same discussion over twice the number of people.

I have been asked to address the specific issue of the multilateral banks and their ability to address the poverty issue. Multilateral banks do a great deal in raising consciousness and awareness of these issues, and they also do a lot that's quite good. However, the numbers speak for themselves on the growth of poverty, and as I have said, on the absence of any sense that this situation is going to get any better.

I want, therefore, to focus on a few things that I think limit the ability of the multilateral development banks to address the poverty issue. One is a larger, general issue that the international financial institutions and the World Bank, in particular, do not discuss trade issues; they are handicapped in having to deal with financial issues and not trade issues.

The particular handicap that creates is the fact that, as the World Bank notes, developing countries lose twice as much on trade issues as they get in development assistance. And if we keep isolating trade problems from financial problems, what you have is a situation where the developing countries have to run twice as fast to stand where they were before.

On the specific operations of these institutions, I drew attention to the fact that the agenda of development set by the international financial institutions may not necessarily—do, in fact, sometimes, conflict with poverty reduction as in the case of structural adjustment lending. I wish to draw attention now to the decline in agricultural lending by the World Bank. The share of agricultural lending in total World Bank lending has dropped from 31 percent in the 1970's to 16 percent. It is not possible to help women in development, to improve food security, to reduce infant mortality or to protect the environment without higher investment in agriculture.

A second problem has to do with the choice of conditionality. Stabilization and structural adjustment programs have fairly heavy conditionality. These conditionalities were designed for the most part to make the developing countries operate more efficiently and to reduce their expenditure in line with their reduced resources.

But there is one piece of conditionality that is absolutely needed for poverty reduction, which the World Bank and the other multilateral development banks shy away from, and this is the conditionality of land reform.

The poor are primarily agricultural. That's where they all are. The women are there; the children are there; and, the shortage of food is there. If we shy away from making land reform a condition of lending, on the grounds that this is politically controversial or interferes with sovereignty, we are giving up before we begin the fight on poverty.

Last, I believe the particular emphasis on projects and the very narrow definition of projects limits the ability of these institutions to address poverty issues. Projects have to be extremely large to reduce the overhead costs of putting them together and they have to have a large foreign exchange component and they have a number of other limitations which I referred to in my text, Mr. Chairman.

I think that poverty reduction needs a different kind of intervention.

It needs programs as well as projects. And the MDB's need to be able to meet local currency financing, and recurrent cost financing, such as teachers' salaries, paramedicals, extension workers. These kind of expenditures are not allowed in normal multilateral development bank lending.

I think I'd like to stop there, Mr. Chairman and I will be happy to answer any questions.

[The prepared statement of Ms. Hardy appears at the conclusion of the hearing, see p. 73.]

Mr. HALL. Chandra, you've said a lot of very negative things. We appreciate the way you've approached it and your testimony. You said we have lost the war on poverty, that the poor continue to get poorer. And I think the fact that you've spent how many years at the World Bank?

Ms. HARDY. Twenty-two.

Mr. HALL. Twenty-two. Did you resign—what? Last year?

Ms. HARDY. December 1988.

Mr. HALL. December 1988.

You've heard, of course, positive statements earlier from the Assistant Secretary, and how do you think that what we heard earlier is—what has happened in the past 20 or 30 years—like, in the 1960's, you had a very positive outlook. You were excited about the future. It doesn't sound like you're too excited right now.

Ms. HARDY. I'm excited, Mr. Chairman. I'm sorry. I'm overwhelmed by the size of the problem, and the experience of going back to places I visited to 25 years ago, and finding them bombed out, is very frustrating. Everywhere you go, you see with your eyes that you have to start back from a different point than we began with. That's very disheartening.

It's not just that there are more poor people, but that the schools lack benches and books for teachers. You get a terrible sense that the problem is that much more difficult. And what that really means, not just for the World Bank, but for all of us in the development community—have we got a better set of answers for the next decade? That was the context of the remarks.

Mr. HALL. And do we? Do you think the Bank does?

Ms. HARDY. Well, no. I don't think they do, no. I think that the thesis is still that we must try and get growth resumed. No one can argue with this. Of course, you have to have resumed growth, because if you don't, you won't have any poverty reduction.

But what I'm saying is that this a necessary but not a sufficient condition, because when we had twice as much growth in the world economy as we're trying to get back to, we didn't do something about poverty and that we need poverty interventions.

Mr. Chairman, Father Hehir mentioned Robert McNamara in 1973. You know, we were there with the idea of direct attacks on poverty in 1973—basic needs approach. We were going to address the problem of poverty directly but this challenge got interrupted by the problems of the international economy.

So, now, maybe we are getting back to what we wanted to do in the mid-1970's. And in that sense, I take back my remark about whether we've got an answer. If what I'm hearing now is that the emphasis will be on targeting the poor, and monitoring the social indicators. These were all things that were part of the intention and the commitment of the World Bank in the early 1970's.

Mr. **Hall**. Mr. Hehir, do you think there's much support in the Bank for poverty work in general?

Father **Hehir**. I speak of the Bank as an outsider, obviously, and so I speak with some temerity.

I think the history that Chandra Hardy has outlined, is, I think, at least as I understand it, the accurate account. That is to say that if you look at the 1950's and 1960's, there was a conception—we talked about it at that time as "take off." That is to say, if you could generate take off for an economy, then the effect of that eventually would sort of trickle down throughout the whole system and produce welfare throughout the system.

By the 1970's, it was clear that take off, however conceptually elegant it was, was simply operationally not functioning. And the reversal, then, was an argument that said that growth had to be joined with equity, and there were these targeted programs, not only in the bank—but, of course, as I'm sure you remember, in the 1970's was the time in which the U.S. Congress mandated targeted programs on basic human needs in terms of U.S. bilateral assistance.

So, I think conceptually, that was the right move. And as far as I can tell, the Bank conceptually has not backed away from that proposal. I think what then happened was that the context changed, and that is to say that this wider international context which provided the resources for development in the 1950's and 1960's, in the take off approach, all of a sudden began to become a very strained economy.

And the point I tried to make in my testimony is that—or one of the points is, that at the end of the 1980's, one of the things to notice is that whether the Bank supports targeted approaches or not, or whether the U.S. Government supports them in terms of the foreign assistance program, the whole shape of the development debate has changed, unfortunately.

We talked in the 1950's and 1960's about development—and the 1970's. In the 1980's, we had to talk about debt. We are now talking—the major focus of the whole debate is how we overcome debt and debt is only a hurdle to overcome to get to development.

So, in that sense, the wider picture is more depressing. I think the conceptual move of the 1970's, targeted approaches, is still supported by people, and I gather the question of the 1990's is, can you gather the resources to restart the effort for a targeted approach with enough power that you really have something to work with?

I think, conceptually, the Bank still supports that, as far as I know.

Mr. **Hall**. Mr. Williams, how would you follow up on that? You've said that the donor is part of the problem, and you've talked about programming from the outside, and planning from the outside. You've talked about it doesn't work, it's arrogant. How would you follow up this line of questioning concerning the Bank and its attitude, its priority?

Mr. **Williams**. Well, first let me say, Mr. Chairman, that I'm not quite as pessimistic as Chandra Hardy on the record.

I have seen a good deal of progress in food production in Asia, and that has made a tremendous difference in countries like India, like China—very large populations where more adequate food production has reduced the incidence of hunger that we were afraid of in an earlier time.

When I said donors are part of the problem, I would just speak of the American aid program. I believe that the Bank is moving in the right direction, back to the growth with equity that was its hallmark in the early 1970's. I think that there has been a realization that the marginalization in Africa, which is particularly severe, requires a longer term approach and a more balanced approach.

I do worry about the trade issues because this is the regression I spoke of, the continued marginalization of that and other poor regions. What needs to be done is that for more of the donors, including the United States, to accept the kinds of approaches that are outlined in the legislation that you have directed for the World Bank.

The Bank cannot do it alone. Aid, first of all, is not adequate to the task, and aid is not directed to the task of poverty alleviation.

Consequently, this is the sense in which I say the donors are part of the problem, not only that they don't direct their aid sufficiently to poverty objectives, but that they pull in differing directions. They sell equipment that's not really suited to the developing countries, because of the commercial advantage.

I think that it's here—in other words, it's a much broader problem than the World Bank, and the World Bank needs help from a redirection of U.S. aid policy and of the aid policies of some of the other industrial countries.

Mr. HALL. Well, do you think the legislation that was passed last year will help direct that, or do we need to do a lot more?

Mr. WILLIAMS. Both. It is helpful and it states the issues very clearly in terms of poverty. Yes, sir. You do need to do a lot more.

Mr. HALL. Questions of the witnesses?

Chris.

Mr. SMITH of New Jersey. Thank you, Mr. Chairman. I want to welcome our panel and thank you for your testimony.

Ms. Hardy, in reading your testimony, you point out that the root cause of world poverty is an unjust world order. I'm sure you're not arguing that the world order is monolithic. Certainly there's the competing market economy versus the communist model. And, some of the other models which exist are diametrically opposed. Some produce economic growth and concurrently allow for respect for human rights, while the others repress.

I've been a member of the Helsinki Commission for 8 of my 10 years in Congress, I've been to the East bloc countries frequently, I've been to the Soviet Union. I have been absolutely amazed how countries which can produce such a war machine as the Soviet Union and the Warsaw Pact are able to do, have been so wholly inadequate and unable to manage an economy, to have the middle level managers and the like who can put together a corporation, which was a foreign term to the Soviets until recently.

Mr. Williams talked about the importance of growth, and you said that growth can't do it. I think it's at least arguable that growth hasn't really been tried. Over the last 5 years, beginning with former A.I.D. Director Peter McPherson, A.I.D.'s operating policy has been to put heavy emphasis on creating market economies, so that we can export our greatest product—not just goods, but business how-to.

With all due respect to your having been out in the field for so many years, I would respectfully disagree with the pessimistic forecast which you have.

I would argue that growth and a market-oriented economy has not been tried, or is only now being tried. Should Czechoslovakia, Hungary, and the other East bloc countries adopt a model more closely associated with our own, and perhaps improve upon it, ultimately we can learn from them. This North-South dialog which needs to take place now that the tensions are diminishing, Father Hehir, will hopefully then become a replicated economic success story that they can then adopt.

If you'd like to respond to that, I'd appreciate it. But I would argue, again, that this whole emphasis on growth is only now getting out of the blocks, and sometimes it takes perhaps a decade or so to really begin to manifest itself in terms of benefits.

Would you like to respond to that?

Ms. HARDY. I don't really have an argument with you. I think that without growth you can't do any of the other things, and I take your point about systems. The term unjust world order simply referred to the maldistribution of the world's resources, which I said is mirrored at the national level, in the uneven distribution of income in the Third World.

I think the point that I was trying to make and which I mentioned in passing is that General MacArthur didn't mind imposing a land reform program in Japan. And the U.S. policy, which Maury knows a lot more than I do, supported increased food production in India and China.

U.S. policies in both East Asia after the Second World War and in India, were very, very, protransformation of traditional agriculture—the whole Green Revolution, land colleges in India, and land reform in Taiwan. The emphasis was completely different in those days. They went after land tenure, land distribution, food production, and peasant agriculture.

This was all before my time. It's never come back since, I've never understood why. Just as I've never understood why in Brazil no one challenges a man who has a farm the size of countries in Africa.

I don't dispute you about Africa, sir, on the value of the market economy, but I know that we have not tried to address food production, or land tenure issues in Mexico, in Brazil, in Africa, and I don't see how we're going to feed the poor, and address the problems of women and children if we don't. So, we're not in opposition, I don't think.

Father HEHIR. I think your comments raise a whole series of very large questions, and I don't pretend to have the answers to some of them. I'd make a distinction—and partly here, I guess, I draw on my own tradition. The papal teaching has addressed this question rather consistently over the last 30 years, and I think they'd make a distinction in the teaching. That is to say, the internal conditions within countries, and then the wider international context within which countries function.

I think you're right to demand the kind of comparison of internal systems to which you point, and as others have said, at least the empirical consensus these days is that more freedom, at least some kind of market, whether you call it a regulated market or not, that gets into more detail than I can take you usefully down that road—but there is a consensus that provides an engine of growth.

Popes, however, have regularly talked about an unjust, wider economic order, and there, I think, they're talking to the wider international context. They're talking about the framework of trade relationships.

I mean, in a sense, the trade argument presumes that everybody starts on an equal playing field, and then says the more freedom, the better. I think popes have argued for, in a sense, maximizing what you get out of freedom and moderating freedom where it doesn't produce direct results in terms of poverty. So they would, I think, argue for preferences for developing countries, that kind of thing.

I think second, even within countries, in the internal model, if you want to go a market approach—the size and scope of the problems that Mrs. Hardy talked about seem to me to demand growth plus, and that's what—Maury was talking about growth and equity—but that demands targeted kinds of things.

And because part of the argument with the growth argument is that you may have to sacrifice a generation, and in moral terms, sacrificing a generation is really never acceptable. So, the question is, how do you get the most you can out of the growth model, and at the same time not sacrifice a generation?

And that seems to be the problem. So, again, I think most discussions these days try to stress consensus rather than polarities in the world we're moving into. I would want to say that I understand what you're really saying, and I understand parts of it that I think are right. I'd guess I'd want to modify it a bit.

Targeted approaches to the poor, whether you're looking at international program or domestic programs, are necessary. They're also controversial, and that's part of the reason why the international agencies make this curious distinction that I think needs to be challenged.

If you take the conditionality approaches today, the IMF and others will say it's legitimate for us to demand macroeconomic reform. When this legislation that you're examining says you also ought to demand that the poor be protected, the international agencies say that violates sovereignty.

I would argue that's logically inconsistent. The macroeconomic reforms are interventions and the microeconomic reforms are the interventions. The question is, do you have a justifiable package of interventions? That's what I think we ought to look at.

I think the split is really not logically tenable.

Mr. **Smith** of New Jersey. Thank you. Mr. Williams, would you like to comment?

Mr. **Williams**. I think there's a great deal in what you say, that the ideological competition between centrally directed economies as a model of development and the less directed free market mass participation, politically and economically, have been in competition and that what has been known as the Russian model of development has had a very large influence in many parts of the Third World.

It seemed to promise more rapid progress in terms of industrialization. It neglected agriculture. We see that in the Soviet Union, and we see it in countries that have attempted this short cut of industrialization under forced economic direction.

And for those areas, they have failed. And we now have, as I indicated in my testimony, much more of a consensus on the approach to development, much more universal acceptance of what I call the single model of development, which is more broadly participatory in releasing people's energies. It does need to focus on where the resources lie, where the people are in agriculture, in the land areas. And this is what the socialist—the communist countries really neglected.

So, in that sense, it has not been tried. You're quite right, sir.

Mr. **Smith** of New Jersey. One final question, very briefly. Mr. Williams, you argued that in saying that the donors were part of the problem, that very often they were arrogant and they distort the priorities of the local country. Could you expand on that a little bit with any specifics—if you have any specifics? That would be helpful as well.

Mr. **Williams**. Well, in terms of the World Bank, which is the subject of this hearing, the Bank—and I think the chairman brought that out in one of the questions to the Assistant Secretary—the Bank has been known to be very directive, to feel that it has all the answers, and maybe not to listen enough and not enough exchange.

I think that is changing in terms of the World Bank, rather than—too often the plans for the countries are written in Washington by the Bank and Fund. And then they're carried out to the field and they're sort of laid on the table, and then say, "This is it. You could correct the drafting, but the money will flow in these terms."

That's not real dialog. That's what I mean by arrogance and planning from the outside. That doesn't work. It may seem to work for a while, because if you're really poor, you're going to take this. I mean, you know, what option do you have?

Poor countries are dependent largely on aid for their investment programs. Aid to Africa, the very poorest region, $15 billion to sub-Saharan Africa; 6 percent of their GDP and more aid is required. That's really not sufficient even if it's well-directed.

Now, other donors—well, the American A.I.D. program is directed toward what Father Hehir has called the old order—security objectives very largely—needs to be shifted in terms of our vision of a new order, in terms of addressing some of these very urgent, social and moral problems in the world. Donors are part of the problem.

Mr. **Smith** of New Jersey. Thank you very much.

Mr. **Hall**. Questions?

Mr. Faleomavaega.

Mr. **Faleomavaega**. Thank you, Mr. Chairman. I just have a couple of questions to Father Hehir and other members of the panel.

I noted you—in my opinion, you painted a very accurate picture of what history has been of the world, and at the same time, you've kind of indicated that the Third World countries are on a regressive trend.

Can you elaborate on what is your perception of what the new order should be? You've mentioned interdependence. That certainly is the—seems to be one of the trends, but I'm just curious——

Father **Hehir**. Are the old——

Mr. **Faleomavaega** [continuing]. Are the regression bases that these Third World countries are going through, what do you perceive to be the future of where we're going?

Father **Hehir**. Priestly ordination doesn't guarantee any gift of prophesy. We tend to do better looking back. Well, I think my colleagues in the academic community, and I, have the habit these days of listening to the radio before we give our morning lectures, because the old order changes so fast that it's very hard to keep up with that.

I see the question of the new order as simply based on two premises. You can't have the kind of change we've had in international affairs without some new order taking shape. I mean, that's my point, the vacuum will be filled with a conception, a design, a structure of power, and a set of relationships and priorities. That's going to happen.

Second, since that is the case, that creates an opportunity. We can choose what we want to put in the center of that circle.

The thrust of what I was trying to argue is that it opens the opportunity to look at the last 45 years very much as my colleagues have with a lot more detail than I could ever bring to it, and say, there was an intention to do something about the developing countries and their populations. But however good the intention was, the outcome did not have the success of, for example, the Japan/Western European developmental process.

So, I think what you need in the new order is a reassertion, particularly of what has to be recognized as the least successful element of the old order, and placing it in the center.

Second, as Mr. Smith's comments indicated, there is today less of an ideological overtone to these debates, less of an ideologic overtone on two grounds. First of all, the Cold War order is gone, so therefore, for example, the kind of security arguments that drove the U.S. bilateral program—I don't know hardly anyone that wants to make a 1960's or a 1980's version of the security argument for foreign assistance.

That doesn't mean we know what we want to do with foreign assistance, but we sure have no justification for doing it the way we used to do it. That's at the U.S. level.

Second, in terms of these multilateral institutions, I would argue that however much we can legitimately criticize them, in a sense, they're the only game in town at this point. In a highly interdependent world, there's an argument for moving toward more multilateral kind of design for dealing with developing countries.

That means one wants to review the program of the banks and the other institutions, but also, one wants to introduce changes, which I take that this legislation is precisely directed at doing.

So, in the new order, I think the institution you're examining becomes of ever more importance. Second, what becomes important is looking at, for example—as Ms. Hardy has said—that with the best of intentions, the outcome was not what we wanted. So, if this institution is going to be important, what shape it has is going to be important.

And in the new order, my sense is, you have the opportunity to give a more multilateral approach to U.S. policy, to redirect both bilateral and multilateral assistance, and to give a higher priority generally to the questions of the poor than the old order allowed for.

Mr. **Faleomavaega**. One area that I might want to add to your response, and something that perhaps may not be considered very important to some people, the fact that we now have limited resources. To the extent the energy—I don't know if you're aware and it's my understanding that the United States alone consumes one-third of the world's energy resources every day.

Do you think that this is a very critical factor to consider this new world order consideration in terms of what does this mean? Does this mean that it will give or should give more responsibility to the United States, to the rest of the world, that the energy resources of the world as being used by this country at one-third of the total resources?

Do you think that's a critical factor, or is this—you know, we play a lot of politics, we play a lot of military, but I'm talking about resources that are now at a limited basis. And this country consumes a very substantial amount of that resource. Do you think we, then, have a moral obligation, a greater obligation to the rest of the world, the fact that we consume that much energy?

Father **Hehir**. Well, I think a short answer is yes. The longer answer runs something like this. I said that the context we're facing is increasing interdependence. That's increasing material interdependence. We are more connected with each other. We affect each other more directly.

My definition of interdependence is that we are locked together in a limited world, and both of those characteristics need to be dealt with. Since we're locked together, we are vulnerable to one another, and therefore responsible for one another, precisely because of decisions within one country have direct implications in others.

Second, we're locked together in a limited world. Now, the debate about what the limits are is perilous in the extreme. I do not want to take on what the absolute limits are, because it gets you into debates that sound like nuclear winter, and that kind of thing, and they are very, very complicated scientifically. But the fact that limitation is part of our fate and future, I think, is real.

And so, for example, if you take another theme that's in the legislation, the ecology, which bears upon this consumption of resources, it is going to be impossible for the United States and other industrialized countries to place enormous burdens of limitation and direction on developing countries from the rain forest and everything else, if we're not willing to share some limitations on our own lives.

And so, the answer to your question is, the fact of limits is part of interdependence, you can't deal with limits without a cooperative approach north and south, and you can't approach limits realistically, and certainly with any moral justification, by placing all the burdens on the limits the south must bear.

There are mutual limits that must be observed, and so we have different kinds of limits than they do, but we are going to have to accept responsibility for a way of life that fits into a wider framework if we're going to have a successful approach to this wider problem.

Mr. FALEOMAVAEGA. Mr. Williams, you—and I think Mr. Smith may have covered it before—the mentioning of the fact that the donor countries are part of the problem. I have a scenario. I wanted to see what you think.

From the majority of the donor countries, the industrialized countries, they move their plants to these poor Third World countries for the simple fact of the cheaper labor costs which are much higher in the United States, and I think the United States is one of the key players in this whole scenario.

So, they go to the poorer countries and labor costs are much substantially lower than what they would be getting here. Is that part of the problem of why we seem to have a regressive trend? Because what happens in these Third World countries? They never get richer. But it's the elite in these Third World countries that get richer.

So generally, the growth factor never becomes—and the general masses of the people in these Third World countries never really share the benefit.

So, a steel contract worker over here might be getting paid $15 a hour and you go to a Third World country, he gets paid 17 cents a hour. Would you consider that slave labor? And yet we call it free enterprise, and the market economy type structure. Is that part of the problem that we have, too, in the situation? There is no real equity in the process.

Mr. WILLIAMS. Certainly the progress—and I'll call it progress in the spread of industrialization of plants—has been related to efficient, cheaper labor in some of the overseas areas—the Koreans, the Taiwanese, what are called the new industrializing countries are examples of this.

However, I would say that the factor of cheap labor is becoming less and less important, and it is really the use of technology that is far more determining than cheap labor in terms of the way in which the world economy is evolving. The comparative advantage does not lie any longer in cheap, unskilled labor; it lies in capital investment in advanced technology for production.

And this is what is creating a bipolarity, a marginalization of countries that cannot command this technology. The new industrial countries like Korea and Taiwan can—are doing it. The Japanese are very outstanding. Europe and the United States are struggling to keep up with them in some areas.

Latin America is not only marginalized by its heavy debt problem, but it's also marginalized by the fact that historically its production has been more in the raw materials and commodity fields, and that it is not moved as rapidly in terms of acquiring a technology—partly land reform problems, old structures that carried over from the Spanish colonial period.

Africa is very much marginalized by this process. This is what I meant in my testimony when I spoke of the marginalization of the poorer areas, so that it's really capital and technology that are the determinants of comparative advantage and the way in which trade patterns are changing.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman.

Mr. HALL. Mr. Flake, you have any questions?

Mr. FLAKE. Thank you very much.

Ms. Hardy, you spent some 20 years with the World Bank, and over that time, I'm certain that you were able to see a number of changes in the world order, as my colleague on the other side talked about recent events in Czechoslovakia and other places.

Has there been a sense in this changing world order that Africa and other impoverished countries will find themselves so overjoyed with this newfound freedom and new expressions of democracy, that these countries will, in fact, go further to the bottom of the barrel than they have historically been because we will use that as a model for definitions of what countries can become? Without understanding all of the problems that are inherent in nations that have been historically colonized and, therefore, not having had the wherewithal to even be in a position if changes took place in them this very day, would there be a difference in terms of the world response than there is in those countries we see in Europe?

Ms. HARDY. Yes. There are several things in what you said—about Africa and a lot of the developing world being marginalized politically, because they are of less significance than Eastern Europe which promises to be a much greater market, particularly for Western Europe.

Maury mentioned another very important point. Even after we get prices and a whole lot of other things right, technologically, growth has moved both in location to the Pacific region—and industrially to informatics and high technology—which is leaving millions of people behind, even if we get all of that policy stuff right. But I think toward the end of your remarks you were probably referring to the issue of governance; were you, and the opening up freedoms?

Mr. FLAKE. Yes.

Ms. HARDY. Yes. And the fear I have, is that this issue is likely to be the new conditionality for Africa. There are noises in that direction. The last decade the issue was prices and markets, and now, maybe governance. I think that this is a little bit naive and it's another version of the arrogance to which Maury Williams referred.

I mean, we can't come from the outside and take democracy in to somebody. We can raise the issues, but I don't know if we believe that what we did was to bring democracy to Eastern Europe. Everything we've learned says that we must speak up for the human rights and pluralism, but that the forces for change have to come from within.

And I think what we have to look more deeply into this question. You know, we cannot simply write it off as a lesson from the Eastern European story and say, "Ah, we're going to get markets and growth, if we get democracy and pluralism, so let's ask for democracy and pluralism." And I think this would be a very, very serious mistake.

Mr. **Flake**. Has there been in your opinion, a historical prejudice, an unjust application as it relates to African countries in particular versus other countries who have been considered as potential funding areas by the World Bank and other financial institutions?

Ms. **Hardy**. Africa was behind even when the world economy was growing rapidly. We noted that statistically Africa was behind all the other regions. And that poverty was greatest in Asia, in India and China. Millions were dying each year of famine in these large countries. Africa was behind all developing regions, because at independence, Africa started with very little.

Tanzania keeps saying that there was one person with the University of Education when the country became independent in 1962. They had no industrial base.

So, the issue is not descrimination. One of the problems of being left behind is that it means starting from a lower base. Not a level playing field as Father Hehir said. Africa needs special attention because it started from a lower base. And I don't think that we were good at that. Or at least we wanted to get there, but before we got there other things intervened.

I think Africa is behind because it started with less capabilities, less administrative capacity to do certain things and it was not connected to that engine—the world trading system—that was growing very rapidly. In that sense, it was behind, and now it's gone further behind.

Mr. **Flake**. Do you think, taking from her answer, that the World Bank is in a position to, rather than as you stated earlier, continue to make its policies here and then only make grammatical corrections in the countries that are affected by those policies?

Is it in position to give consideration to the fact that you're starting at different points in these countries, and therefore necessary to make new approaches, different approaches that cannot necessarily be on the basis of changes that have taken place in Eastern Europe?

Mr. **Williams**. I think the Bank says the right things at this point.

Mr. **Flake**. It says the right things?

Mr. **Williams**. It says the right things. I think the recent report on Africa from crisis to sustainable developments—that could be the longer term approach—emphasizes very strongly the need for special attention in terms of human resource development, of training, of education, of the social sectors.

Implementing those statements is the name of the game for the future. But I think the Bank does seem to be pointed now in a better direction.

Mr. **Flake**. And Father Hehir, do you think that there is long-term possibilities for that kind of change? Is there a driving force, a mechanism outside of the financial community areas where you're involved? Different groupings, organizations who have been able to identify the differentials in the starting points and the necessities?

Are there mechanisms available to push not only the World Bank, but other financial institutions in giving an appropriate response at this time in history, as opposed to believing that all of the world's problems have now been solved by what has happened in Eastern Europe?

Father **Hehir**. My short answer, again, is yes. I think if you look at the way the policy debate discussion goes, it seems to me, you can distinguish broadly three sets of actors. There are states which are still the key elements in the world order.

There are multilateral institutions, like the Bank and the Fund and others, and then there are what we broadly call nongovernmental organizations. This piece of legislation that you're examining had as one of its originators nongovernmental groups.

And the role of nongovernmental organizations, I think, are very important in two senses. Within the United States, for example, they can function vis-a-vis the Congress and vis-a-vis other institutions, trying to contribute to the policy debate, trying to contribute to certain shaping of policy.

Second, within developing countries, they can become agencies to participate in the development process, and many of the nongovernmental organizations, I think, have substantially sound records in terms of their ability to work with the local population, their ability to listen to it, and their ability to provide an agency through which resources can be distributed in a way that doesn't have some of the heavy-handedness of states and multilateral institutions.

What's hard, I think, is to find the formula where you can join the resources of states and multilateral institutions with the possibility of creativity of nongovernmental organization.

That kind of thing is not easy to do in our own cities. That same kind of thing—you can look at shelters and food banks and other things here, and in a much less structured situation, it still is open. So, I think the possibility is there to work those three groups into a consensus.

Your final point, though, is the question of intellectual attention and energy to these questions. My own sense is that when you go back to this new order, at the heart of the new order there's no question there's going to be an enormous energy attached to redefining the superpower relationship, seeking to eliminate, for all practical purposes, the possibility of nuclear war. That's still ongoing.

Second, the European question—Europe from Atlantic to the Urals: the whole question of what's happening in Eastern Europe, what's going to happen in Western Europe, how they're going to be related. That's going to focus our attention.

What I'm pleading for is that along with those two, there be at the heart and center of the policy debate this question we're raising. Now, my point is that's not going to happen automatically. There's an enormous attractiveness to those first two sets of questions, both because they're intrinsically important, the failure to do that well over the last 100 years has produced two World Wars, and the threat of nuclear war.

You can't let that go by without trying to "fix it" for the long-term. But the attractiveness of that objective—we're going to have to deal with it and do those things, and still tilt against the absorption of all our intellectual energy and all our policy debate on those first two sets of questions, the superpowers in Europe. We need to do those and deal with this third issue as a high priority issue. That's what needs to be really worked at.

Mr. FLAKE. That's where the nongovernmental entities basically fit, they have to drive that.

Father HEHIR. Well, I think they fit across all three areas.

Mr. FLAKE. Right.

Father HEHIR. The nongovernmental entities fit in Eastern Europe, too, and they fit on the arms control question, too, but they fit very much here. But the U.S. Congress fits here. I mean, the importance of this committee, it seems to me, is that you have a kind of freedom to cut across issues. See, intellectually, I honestly don't know whether one ought to put a lot of stress on comparing the Eastern European countries with developing countries. I'm not an economist.

Mr. FLAKE. I agree with you.

Father HEHIR. I can't judge that, but I think the question—or that you're going to learn a lot about what's going to happen in Czechoslovakia for what ought to happen in sub-Saharan Africa. My presumptive approach is you're not going to learn a lot, and you ought to deal with those as two distinct questions.

But the focus of the debate in the Congress, in the administration, in the foreign policy community, is going to be very taken up with "redoing the East/West question," and that needs to be done.

It simply cannot be the only question. The creative possibility of the future is to put together the old East/West question with the old North/South question, knowing that neither of them are the same in the 1990's as they were from 1945 to 1990. You have to redefine the terms and then put those axes together in some kind of comprehensive conception of the kind of world order you want by the year 2000.

Mr. FLAKE. Thank you very much.

Mr. HALL. Thank you, Congressman Flake.

That's one of the unique things about this committee. It does cut across a lot of areas: refugees to health care to food aid. And there is a world of difference between Romania and Ethiopia.

We've talked a lot about the positive statements that the World Bank has made concerning poverty, do you—this should probably be directed toward Chandra. Do you have any idea what kind of money that they're talking about putting into poverty—the increased amount of money, either by numbers or percentages?

Ms. HARDY. Of the Bank itself?

Mr. HALL. Yes; the Bank.

Ms. HARDY. I don't think it's a question of how much more money. Are we talking about shifts within the spending priorities of the institution?

Mr. HALL. Yes.

Ms. HARDY. I don't think it's more, sir. I think one of the points I made that I think the Bank has to answer concerns agriculture. And I raised it because I really did not have time to ask them myself, but I noticed the drop in agricultural spending. That's fairly serious. And it is a question of rearranging the priorities in certain areas to achieve these targeted interventions that are being talked about.

I gather food subsidies, something that was absolutely abhorred in the 1980's as an example of excessive Government spending, is now being acknowledged as being something to do. So, I don't see it as more money. That doesn't mean I wouldn't plead for increased aid, but I think the greater issue is a redirection of the priorities in spending and the types of conditionality that the Bank asks for.

The Bank did a report on the Philippines about land reform. I know it's extremely difficult, but it seemed to me that the Bank should be sticking with this issue. It's not that the Bank doesn't know that land reform is important, but that it is shying away from some sovereignty questions.

Mr. HALL. What about countries that they don't want our help from the standpoint that they're poor nations. And you know, we've talked a lot about structural adjustment, trying to force that on other countries. What about trying to force poverty alleviation on countries that they don't want to hear it? How would you proceed with that? What would you do?

Ms. HARDY. Well, I have trouble conceiving of countries that don't want to hear poverty. I mean, the kind of thing I hear——

Mr. HALL. Well, I don't have any problems with that. I've heard it from different nations, from the leaders. For example, you go to Uganda, which I did—I don't know, 5 or 6 years ago, talked to Mr. Obote and Uganda needs everything from electricity to health care to food to whatever. And he wants to buy F-15's.

Ms. HARDY. Yes.

Mr. HALL. That's the first thing he asked me about, so we go in there as a World Bank or as a donor and we try to force poverty alleviation on him. And he doesn't want it. So, what do we do?

Ms. HARDY. Well, I agree there are people like that. That was a particularly bad government. I think that I want to step back a bit. I think that we make several demands of countries. As I said in my testimony, poverty is somewhere on that list. We have markets, ideological agendas; we have trading, security considerations, and business considerations. And countries have two reactions.

One is that we cause some of the poverty in the nature of what we do. Stabilization programs were very hard on the poor. That reduces our credibility a bit. If we don't accompany these structural adjustment programs, with safety nets for the poor, which is only now being thought about.

But I think that governments are shying away from the kinds of things they need to do to address poverty. I find it hard to believe but it's true, some governments are not interested in poverty.

What I'm saying is, I don't see the Government of Brazil, saying that they don't like poverty. They just wouldn't back land reform because of the political problems. Do you see what I mean?

Or in Africa women have no rights to land. Women account for 60 percent of the agricultural operations, but have no land tenure rights. In Africa, several heads of government won't address that issue.

You asked me what do we do. And I said—well, we don't seem to have any problem telling them to get the prices right and telling them about efficiency of markets, so why don't we tell them that they can't get any lending, if they don't do something about women's rights and land reform, and I think, we should walk away from governments that don't address poverty issues.

The Bank reached the correct conclusion there was no sense throwing good money after bad in countries that did not subscribe to its macroeconomic framework and its policies. And I'm saying, what this legislation is saying, if governments are not committed to taking certain actions that directly reduce poverty, walk away.

Mr. HALL. Any other comments?

If not, that will conclude the hearing. Thank you very much for your testimony. I'd like to thank Nancy Alexander from the Friends Committee on National Legislation for submitting testimony which will be submitted to the record. We thank you for making yourself available and answering questions, coming to be with us, shedding some light on some questions that we ponder ourselves.

You know the priority is poverty alleviation. I mean, at least it should be, and it's not. Whether it's in the Congress, or whether it's in the World Bank or not, the rhetoric is getting very good. We are seeing some changes, but it's really incumbent upon this committee and you, for all of us, to really push for putting poverty alleviation on top.

And I know that you're pushing for it in all your ways. But I'm hoping, Chandra, that in the year 2000, that it's not going to be like the 1960's or the 1980's—let us hope that we won't see all these resources wasted when there's so much need in the world.

Thank you.

Ms. HARDY. Thank you.

Father HEHIR. Thank you.

Mr. WILLIAMS. Thank you.

[Whereupon, at 11:59 a.m., the hearing was adjourned.]

[Material submitted for inclusion in the record follows:]

HUNGER COMMITTEE HEARING ON THE WORLD BANK

Wednesday, June 20, 1990 - 9:30 a.m.

In the end of twentieth century global poverty remains a problem of staggering dimensions. More than 1 billion people, nearly half of the population in the developing world, live on less than $375 per capita a year. There are many interrelated factors contributing to the problem of persistent poverty, but the familiar signs of high infant mortality rates, chronic disease, illiteracy, and environmental degradation, among others, remain constant.

In response to growing public concern over these trends, the World Bank has begun increasingly to pay special attention to poverty issues. In order to further the Bank's effort in this area, Congress passed new legislation last year requiring the Bank to take specific steps to alleviate poverty.

The legislation, Section 501, P.L.101-240, "Increasing the Productive Economic Participation of the Poor" (attached), proposes that the World Bank should allocate its aid based on the demonstrated commitment of recipient countries to eradicate poverty. The legislation calls on the Treasury Dept. to instruct the U.S. Executive Director to the World Bank to establish policies in three areas to ensure that the Bank makes poverty alleviation central to its discussion with borrowing countries. In brief, the law requires that:

- the Bank's aid allocation decisions be based on a government's demonstrated commitment to poverty eradication,
- recipient countries develop national poverty plans, and
- the Bank assist countries to develop poverty plans, adopting the necessary staffing and budgetary procedures to do so.

It is notable that the World Bank's forthcoming 1990 World Development Report has taken poverty as its theme. The report suggests that a two part development strategy which promotes the efficient use of labor and the provision of basic social services to the poor could reduce poverty by a third. In terms of making external assistance a more effective instrument for reducing poverty, the report also adopts the central idea of the legislation that aid should be more tightly linked to the recipient country's effort to reduce poverty.

While the Bank has already taken the step of increasing the weight of borrowing countries "poverty alleviation performance" as a proportion of total performance, the Bank does not yet appear to have fully implemented the other aspects of the legislation, particularly assisting countries to develop their own national poverty strategies.

In the recent Foreign Operations subcommittee mark-up of the U.S. share of the three year IDA replenishment, IDA received $1,064,149,500, one third of the total $3.18 million. The Banking subcommittee on International Development, Finance, Trade, and Monetary Policy, will be marking up the bill the same day as the Hunger Committee hearing. **The objective of the hearing, therefore, is to reiterate the Hunger Committee's strong support of the poverty legislation, to assess how far the Bank has gone in operationalizing the legislation and its other poverty policies, and to determine the impact of the policies on a country-by- country basis.**

BASIC FACTS ON THE WORLD BANK

The World Bank Group consists of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). Total lending for the World Bank was approximately $23.06 billion for FY89.

IDA was founded in 1960 to provide concessional long-term financing to the world's poorest countries (mostly to countries with annual per capita incomes of $400 or less), complementing the work of IBRD. IDA has 138 member countries, and provides credit to its borrowers interest-free, with a 50-year final maturity and a 10 year grace period. Both IDA credits and IBRD loans support development projects, as well as structural adjustment programs.

IDA depends on periodic replenishments with contributions from its richer member governments for funding, while IBRD raises its funds from private capital markets. The U.S. contribution to the last IDA replenishment (IDA8) amounts to $2.87 billion, (of a total of approximately $12.4 billion spread over three years), and as of June 1989 held 17.4% of the voting power. The U.S. is represented by the U.S. Executive Director, who reports to the Treasury Dept. and is a member of the Bank's Board of Directors. As the largest member country government, the U.S. has substantial influence in the Bank.

IDA's ninth replenishment is currently before the Congress. Full committee mark-up is expected before the end of June and IDA9 should be voted on by the House later this summer.

IDA Lending for FY89 ($4.9 billion in credits) by Region:

- 48% to Africa
- 44% to Asia.
- 8% to Europe, the Middle East, and Latin America

IDA Lending for FY89 by sector (approximate):

- 29% agriculture
- 24% structural and sector adjustment lending
- 16% transportation and telecommunications
- 10% energy
- 9% education
- 5% population, health, and nutrition
- 4% water supply and sewerage

PREPARED STATEMENT OF CHARLES H. DALLARA, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF THE TREASURY

Mr. Chairman and Members of the Committee:

It is a pleasure to appear before you today. I am here to discuss progress in implementing last year's legislation on poverty alleviation, with a particular focus on the World Bank's efforts in this area.

Basic Approach

Poverty alleviation is a pressing issue for this Administration and for the vast majority of developing countries. There are still fifty member countries of the World Bank with annual per capita incomes of less than $500. In addition, most other borrowing countries have significant segments of population falling below the poverty line.

The key element of any program to address poverty is the promotion of investment and growth. Improvements in per capita income are not possible without sound and sustainable economic growth. For this reason, we support macroeconomic reforms that free up economic rigidities, promote sustainable growth and assure that scarce resources are used efficiently. We place particular emphasis on structural adjustment programs which provide policy guidance and financial support for economic reform. Complementary actions focusing on specific aspects of poverty are necessary but the role of economic reform is central to improvements in living standards for the poor and non-poor alike.

International Development Association

As last year's poverty alleviation legislation noted, the United States can use replenishment negotiations in the multilateral development banks (MDBs) as a vehicle to advocate key policy directions such as increased emphasis on poverty alleviation. The U.S. did precisely this in the negotiations for the most recent -- the ninth -- replenishment of the World Bank's concessional fund, the International Development Association (IDA). In those negotiations, the U. S. advanced its agenda on poverty. We were successful in obtaining agreement and language in the

IDA-9 replenishment report on strengthening poverty alleviation efforts through projects, analysis, policy dialogue and aid allocation.

Here I would like to amplify on the important role IDA plays in the multilateral approach to development assistance. IDA is the principle vehicle to provide support for low-income developing countries. It is the world's single largest source of MDB lending on concessional terms. Since its inception in 1960, IDA has played a pivotal role in alleviating poverty, and enhancing development and growth in the poorest nations. Only countries with per capita incomes of $580 (in 1987 dollars) or less are currently receiving IDA credits. In fact, the majority of IDA lending goes to countries with per capita incomes of less than $400 per year.

In its early years, IDA financed infrastructure to provide the basis for industrialization and growth. Over time it was recognized that it would be beneficial to complement the emphasis on economic growth with a more specific focus on poverty alleviation. As a consequence, in the early 1970's, IDA began a major expansion in lending for rural development, financing projects to assist small farmers to increase production and income. Substantial resources were provided for small-scale irrigation, rural roads and agricultural credit programs. Poverty alleviation efforts also extended to urban areas through financing for projects in small-scale industrial development and basic infrastructure in areas inhabited by the poor. In the social sector -- education, health, water and sanitation -- lending was reoriented to help increase human capital and thus the productive capacities of the poor. For example, primary education and village water supply systems were emphasized as an effective approach to assisting the poorer segments of the population.

The negotiations for the ninth replenishment of IDA (IDA-9) resources were completed in December of last year. The United States committed itself to a contribution of $3.18 billion over three years, which maintains, in real terms, the amount of the U.S. commitment to IDA-8. IDA-9 will total over $15 billion, and combined with reflows, will support an annual lending program of about $5.5 billion. The U.S. contribution was conditioned on strengthening IDA operations in a number of areas, including poverty alleviation.

The traditional IDA mandate for poverty alleviation notwithstanding, the agreement for the new replenishment insists on an even stronger focus on reducing poverty through IDA programs. Other donors agreed with the United States that country commitment to poverty alleviation should be given greater weight in determining lending allocations. IDA's allocation formula now explicitly takes into consideration country commitment to poverty reduction efforts.

The United States stressed the importance of broadening poverty reduction efforts to encompass all sectors, paying particular attention to the linkages with environmental management, population policy and equitable treatment for women. IDA management was urged to help formulate national poverty strategies which would improve access by the poor to productive resources such as land, credit, employment and social services. Management proposed and donors have agreed to a significant increase in the share of IDA-9 resources going to human resources projects.

Legislative measures authorizing U.S. participation in IDA-9 and appropriating the first U.S. contribution are currently before Congress. The IDA-9 replenishment deserves the strong support of the U.S. Congress as it represents a critical effort to assist the poorest countries of the world.

World Bank's Poverty Alleviation Strategy

I would like to turn to the broad poverty alleviation efforts of the World Bank Group as a whole. The Bank has chosen poverty as its principle theme for the 1990 World Development Report. The Report outlines the history of the Bank Group's efforts and its strategy for poverty-related assistance in the 1990's. This strategy is a dual-tracked one. First, the Bank stresses the important role of economic growth in alleviating poverty. Extensive analysis of country experience has shown that robust economic growth is a necessary, if not sufficient, condition for successful efforts to reduce poverty. The trade-off is not between growth and poverty alleviation but between a greater or lesser emphasis on assisting the poor.

More specifically, the World Bank has pinpointed labor intensive growth policies as the way to assure equitable economic development. This emphasis would permit poor people to take advantage of their most abundant asset -- labor. The challenge for developing countries and for the World Bank is to foster the most efficient patterns of labor intensive growth so as to maximize the returns both to the poor and to the economy as a whole.

The World Bank, in both its hard loan and concessional programs, seeks to promote economic growth. In the turbulent 1980's, many developing countries have seen economic growth fall as a result of world recession and domestic structural imbalances. Economic stagnation has impelled a large number of countries to turn to the Bank for assistance in restructuring their economies. The vehicle for assistance has been structural adjustment programs which entail policy reforms and institutional changes, on either an economy-wide or sector-specific basis. The programs provide financial support to countries during the adjustment period. While it is still early for a complete evaluation of structural adjustment lending, there is evidence that those countries which have made concerted efforts to restructure their economies have experienced higher rates of economic growth than those countries which have not pursued economic reform and adjustment. We concur with the World Bank's conclusion that structural adjustment is consistent with efforts to reduce poverty.

The second major element of the Bank's poverty alleviation strategy is the improvement and expansion of basic social services to the poor. This element requires particular attention in the context of structural adjustment both because of tighter government budgets and because of the direct impacts that recession and adjustment might have on the most vulnerable groups.

Improvement and expansion of social services can help alleviate present poverty and also help break the cycle of poverty. For example, programs to increase women's access to education and health care can confer immediate benefits in terms of higher productivity and income but also improves the future prospects of children who are being raised in more favorable family circumstances. Similarly, potable water and sanitation projects can improve current health status and set the stage for higher productivity and, thus, more vigorous participation in the economy. Bank programs in the social sector can pursue the advantage of these linkages and help multiply the benefits of self-help efforts on the part of poor communities.

The issue of efficiency in providing social services is a very important one and one to which the Bank is devoting considerable resources for analysis and project design. Efficiency is important because of the fiscal austerity faced by most developing countries and because it would maximize benefits to as large a group of the poor as possible. Some of the countries are dealing with structural imbalances that result from inefficient and poorly targeted spending programs, many of which benefit the non-poor relatively more than the poor. The consequent deficits and inflation take direct tolls on the most vulnerable groups.

Although the Bank has articulated a dual-track strategy of promoting growth and expansion of basic social services to the poor, it recognizes that additional, complementary measures are necessary to a full-fledged approach to poverty reduction. For certain groups which are unable to directly benefit from growth-oriented policies or basic social services, more specifically targeted interventions may be needed to ease the effects of poverty. For example, the handicapped or households headed by handicapped or elderly people may require direct transfers for food security. The key in these interventions is sound design so as to concentrate the available resources on the truly needy, and maximize the effectiveness and sustainability of government spending.

I think it is worth mentioning here that targeted programs for specific vulnerable groups have been viewed sometimes as the primary tool for fighting poverty. As useful as these programs may be, it is important to ensure that they are compatible with basic economic reforms. Poorly designed programs can hinder reforms which are of fundamental importance for the health of the economy and the welfare of the poor. Targeted programs have had a poor track record and should be used on a highly selective basis.

Operations

I have sketched out the general approach the World Bank is taking in dealing with poverty -- that is, fostering economic growth and ensuring basic social services, complemented by the use of direct targeted interventions and safety net programs as necessary. I would like to discuss the operational aspects of this approach.

As is clear from my earlier discussion of IDA, poverty alleviation is not a new task for the World Bank Group. Bank policy and programs in this area have evolved as research on the usefulness of various activities has emerged, and new needs and circumstances have arisen. In response to the recommendations of the Bank's 1988 Task Force on Poverty Alleviation, Core Poverty Programs were established in each of the four geographical regions of operations in the Bank. These programs include investments in productive sectors such as small-holder agriculture; social sector projects such as health, nutrition and population; and special assistance programs associated with structural adjustment. Core poverty programs in each country are complemented by programs which encompass significant elements of poverty reduction even though they have other or more general objectives as well. For example, a drought-distressed area may need the immediate benefits provided by a public works program involving, say, reforestation; it would also benefit from a related project in agricultural extension to introduce drought resistant crops and improved farming methods.

To illustrate the change in Bank emphasis, I would point out that lending for the social sector will increase from 18 percent to 25 percent of total Bank lending in the period 1988-1993. This does not include the projects in other sectors which also address poverty.

In the 1980's, the "decade of adjustment" has given rise to programs specifically associated with adjustment loans to safeguard the needs of vulnerable groups. These programs to deal with the "social dimensions of adjustment" vary in content depending on the circumstances of the country and on the particular impacts of the adjustment package. Some programs are designed to broadly improve efficiency of services to the poor. For example, the Bank's structural adjustment loan for Venezuela supports the government's intention to phase out indirect food subsidies while introducing or expanding direct food transfers to the needy. Other programs are much more specifically targeted to a particular region or sub-group. In the Uganda adjustment program, special attention will be given to rehabilitating schools in disadvantaged districts and to providing assistance to families affected by civil conflict or AIDS.

Another approach to dealing with poverty concerns arising from the adjustment process is the use of "social funds". These specific pools of investment funds are aimed at groups identified as being disadvantaged by adjustment. The projects funded are intended to help tide the targeted groups over the transition period.

At the country level, poverty-oriented programs are formulated as an integral part of the Bank's country assistance strategy. Thus specific programs of intervention are not divorced from the general effort to promote sustainable economic and social development. Approaches to poverty reduction form an important part of the Bank's policy dialogue with countries. Donors and Bank management agree that more assistance should be given to those countries which have the greatest commitment to poverty alleviation. However, to reach as broad a segment of poor countries as possible, the Bank will assist with selective interventions in those countries whose overall framework is not as conducive to poverty reduction as they could be.

Policy dialogue and project design are backed up by country-specific and sector-specific poverty research on the part of Bank staff. One major effort is the Bank's Living Standards Measurement Survey program which gathers detailed data on households in participating countries, documents poverty conditions and provides an analytical basis for policy reforms and program design. The Bank has completed surveys in Ivory Coast, Ghana, Mauritania, Peru, Bolivia, and Jamaica. The data and analysis have already been used in designing or improving poverty alleviation programs. Surveys have been or are about to be initiated in a number of other countries.

In addition to the work on household data, the Bank has prepared a wide variety of studies pertaining to poverty issues. Some of these are sector-specific or oriented to a particular aspect of poverty alleviation. A major study on public spending on social programs in Brazil is an example of the latter. Other studies encompass the broad range of poverty issues in particular countries. India, Indonesia and The Philippines have completed these studies. In the IDA replenishment negotiations, donors agreed on the importance of country studies and national poverty alleviation strategies. As the Bank has already begun the necessary analytical work, we anticipate the emergence of these strategies over the next few years.

Conclusion

This Administration strongly supports the objective that all segments of the population have the opportunity to benefit from economic growth. An overall economic framework of adjustment and reform is necessary for sound economic performance and real, sustainable growth. In turn, sound economic performance and sustained growth are necessary conditions to reduce poverty. While social costs can be a by-product of adjustment in the short run, failure to adjust is far more damaging to the poor in the long run. Other efforts to alleviate poverty over the long term will fail without the adjustment that enables growth and development.

We support the MDBs in the effort to provide cost-effective, country specific approaches to poverty reduction. Poverty initiatives must be well-targeted, maintain efficiency, and be sustainable.

Our dialogue with the World Bank on other issues, namely environmental management and public participation, also further our objectives on the poverty front. The Bank has acknowledged the linkages between environmental degradation and poverty. Policies and programs to improve natural resource management in developing countries will directly benefit poor people. Our insistence on the participation of non-governmental organizations (NGOs) and affected communities in the project cycle will also yield fruits in the form of improved project design and better prospects for implementation success.

These efforts will require close monitoring on our part and a continued dialogue with the Bank, with other donors, with the developing countries themselves and with NGOs working on these issues in the United States. At the September meeting of the Joint World Bank/IMF Development Committee, poverty alleviation will be the first item on the agenda. The finance ministers will discuss "strategies for the effective reduction of poverty in the 1990's". A discussion of this issue at such a high level underscores the importance attached to it. The U.S. expects to build on the achievements of the IDA replenishment and maintain momentum on this important task.

Table 7-4. Statement of IDA Credits Approved during Fiscal Year 1989

Country Purpose	Date of approval	Maturities	Principal amount (millions) SDR	Principal amount (millions) US$ equivalent
Bangladesh				
Industrial sector credit (supplemental credit)	Mar. 13, 1989	1999/2028	1.9	2.5
Export development credit	April 11, 1989	1999/2028	19.4	25.0
Energy sector adjustment credit	April 11, 1989	1999/2028	137.0	175.0
Power distribution (16 towns) project	May 16, 1989	1999/2029	64.7	87.0
Third flood rehabilitation (emergency) project	June 27, 1989	1999/2029	102.8	133.6
Benin				
Telecommunications project	Nov. 8, 1988	1999/2028	12.5	16.0
Structural adjustment program	May 23, 1989	1999/2029	33.5	45.0
Health services development project	June 6, 1989	1999/2029	14.1	18.6
Bolivia				
Economic management strengthening project	Dec. 22, 1988	1999/2028	7.2	9.7
Financial sector adjustment credit (supplemental credit)	Mar. 13, 1989	1999/2028	9.2	11.3
Mining sector rehabilitation project	May 11, 1989	1999/2029	26.5	35.0
Export corridors project	May 11, 1989	1999/2029	28.3	37.0
Burkina Faso				
Agricultural services project	Jan. 17, 1989	1999/2028	31.2	42.0
Burundi				
Second urban development project	Dec. 6, 1988	1999/2028	16.1	21.0
Agricultural services sector project	May 25, 1989	1999/2029	25.1	33.1
Cape Verde				
Infrastructure rehabilitation and technical assistance project	Sept. 8, 1988	1999/2028	3.5	4.7
Central African Republic				
Economic management project	Dec. 13, 1988	1999/2028	10.3	13.2
Energy project	Jan. 10, 1989	1999/2028	13.5	18.0
Chad				
Financial rehabilitation program	July 26, 1988	1999/2028	11.9	16.2
Education rehabilitation program	Aug. 2, 1988	1999/2028	16.2	22.0
Transport sector adjustment/investment project	April 25, 1989	1999/2029	45.4	60.0
China				
Jiangxi provincial highway project	Feb. 7, 1989	1999/2023	44.7	61.0
Shaanxi agricultural development project	Mar. 28, 1989	1999/2023	78.8	106.0
Textbook development project	April 18, 1989	1999/2023	41.8	57.0
Integrated regional health development project	May 2, 1989	1999/2024	39.4	52.0
Inner Mongolia local railway project	May 12, 1989	1999/2024	58.6	80.0
Shandong agricultural development project	May 16, 1989	1999/2024	82.5	109.0
Shandong provincial highway project	May 25, 1989	1999/2024	38.8	50.0

(continued)

Table 7-4 (continued)

Country Purpose	Date of approval	Maturities	Principal amount (millions) SDR	 US$ equivalent
Djibouti				
Geothermal development project	June 29, 1989	1999/2029	7.1	9.2
Ethiopia				
First peasant agricultural development project	Oct. 18, 1988	1999/2028	66.0	85.0
Transport project	April 11, 1989	1999/2029	55.8	72.0
Gambia, The				
Enterprise development project	Dec. 22, 1988	1999/2028	7.3	10.0
Second structural adjustment program	June 8, 1989	1999/2029	17.9	23.0
Ghana				
Second telecommunications project	July 26, 1988	1999/2028	13.8	19.0
Forest resource management project	Dec. 22, 1988	1999/2028	30.6	39.4
Financial sector adjustment credit (supplemental credit)	Mar. 13, 1989	1999/2028	5.1	6.6
Private small and medium enterprise development project	Mar. 28, 1989	1999/2029	22.3	30.0
Second structural adjustment credit	April 18, 1989	1999/2029	89.2	120.0
Rural finance project	June 14, 1989	1999/2029	15.2	20.0
Water sector rehabilitation project	June 14, 1989	1999/2029	19.3	25.0
Guinea				
National agricultural research and extension project	Sept. 15, 1988	1999/2028	14.2	18.4
Second economic management support project	Nov. 8, 1988	1999/2028	11.3	14.5
Second water supply project	Feb. 21, 1989	1999/2029	29.3	40.0
Socioeconomic development support project	Mar. 28, 1989	1999/2029	6.9	9.0
Guinea-Bissau				
Social and infrastructure relief project	May 18, 1989	1999/2029	3.8	5.0
Second structural adjustment program	May 18, 1989	1999/2028	18.0	23.4
Haiti				
Fifth power project	June 27, 1989	1999/2029	18.6	24.0
Port-au-Prince water supply project	June 27, 1989	1999/2029	15.2	20.0
India				
Third national seeds project	Aug. 25, 1988	1998/2023	108.6	150.0
States' road project	Oct. 20, 1988	1998/2023	62.2	80.0
Vocational training project	April 27, 1989	1998/2023	189.2	250.0
Upper Krishna (Phase II) irrigation project	May 4, 1989	1999/2023	119.0	160.0
National sericulture project	May 18, 1989	1999/2024	113.8	147.0
Sixth population project	June 29, 1989	1999/2024	87.2	113.3
Kenya				
Geothermal development and energy preinvestment project	Dec. 22, 1988	1998/2023	31.6	[illegible]
Rural services design project	Dec. 22, 1988	1998/2023	15.5	[illegible]
Industrial sector adjustment credit (supplemental credit)*	Mar. 12, 1989	1998/2023	[illegible]	[illegible]
Financial sector adjustment credit	June 27, 1989	[illegible]	[illegible]	[illegible]

Country Purpose	Date of approval	Maturities	Principal amount (millions) SDR	Principal amount (millions) US$ equivalent
Lao People's Democratic Republic				
Industrial credit project	July 26, 1988	1998/2028	7.4	10.0
National polytechnic institute project	April 11, 1989	1999/2029	2.7	3.5
Structural adjustment program	June 14, 1989	1999/2029	30.8	40.0
Madagascar				
Economic management and social action project	Dec. 6, 1988	1998/2028	17.1	22.0
Public sector adjustment credit (supplemental credit)	Mar. 13, 1989	1998/2028	1.1	1.4
National agricultural research project	June 15, 1989	1999/2029	18.6	24.0
Malawi				
Agricultural marketing and estate development project	Dec. 1, 1988	1998/2028	14.2	18.3
Industry and trade adjustment credit (supplemental credit)	Mar. 13, 1989	1998/2028	4.0	5.2
Energy I project	Mar. 14, 1989	1998/2028	34.8	46.7
Institutional development project	June 13, 1989	1999/2029	8.8	11.3
Maldives				
Education and training project	Jan. 26, 1989	1998/2028	6.0	8.2
Mali				
Second power project	Mar. 30, 1989	1999/2028	24.2	33.0
Education sector consolidation project	June 29, 1989	1999/2029	20.2	26.0
Mauritania				
Education sector restructuring project	July 19, 1988	1998/2028	13.2	18.2
Mozambique				
Urban rehabilitation project	Aug. 2, 1988	1998/2028	44.0	60.0
Health and nutrition project	Mar. 14, 1989	1998/2028	21.0	27.0
Third rehabilitation project	May 18, 1989	1999/2029	68.2	90.0
Urban household energy project	June 8, 1989	1999/2029	17.1	22.0
Nepal				
Municipal development and earthquake emergency housing reconstruction project	Mar. 14, 1989	1998/2028	30.9	41.5
Arun III access road project	May 30, 1989	1999/2029	24.4	32.8
Hill community forestry project	May 30, 1989	1999/2029	23.5	30.5
Engineering education project	June 22, 1989	1999/2029	8.8	11.4
Earthquake emergency schools rehabilitation project	June 27, 1989	1999/2029	17.6	22.8
Second structural adjustment credit	June 27, 1989	1999/2029	46.2	60.0
Nigeria				
Third multistate agricultural development project	June 13, 1989	1999/2024	75.0	100.9

[illegible]

Table 7-4 (continued)

Country Purpose	Date of approval	Maturities	Principal amount (millions) SDR	Principal amount (millions) US$ equivalent
Pakistan				
Third industrial investment credit	Jan. 31, 1989	1999/2023	1.5	2.0
Second Karachi water supply and sanitation project	Feb. 28, 1989	1999/2023	97.1	125.0
1988 flood damage restoration project	April 11, 1989	1999/2024	30.6	40.0
Private tubewell development project	April 11, 1989	1999/2024	26.3	34.4
Rwanda				
Agricultural services project	May 30, 1989	1999/2029	15.5	19.9
Urban institutions sectoral development project	June 15, 1989	1999/2029	24.8	32.0
São Tomé and Principe				
Multisector project	June 14, 1989	1999/2029	3.9	5.0
Senegal				
Third structural adjustment credit (supplemental credit)	Mar. 13, 1989	1999/2028	4.2	5.5
Second small rural operations project	Mar. 21, 1989	1999/2028	12.0	16.1
Somalia				
Central rangelands research and development project	Oct. 18, 1988	1999/2028	14.7	19.0
Second agricultural sector adjustment program	June 1, 1989	1999/2029	54.2	70.0
Sri Lanka				
Third industrial development project	July 26, 1988	1999/2028	31.7	43.8
Forest sector development project	June 15, 1989	1999/2029	15.5	19.9
St. Vincent and the Grenadines				
Agricultural rehabilitation and diversification project	Jan. 26, 1989	1999/2023	1.1	1.4
Sudan				
Southern Kassala agricultural project	Nov. 8, 1988	1999/2028	15.6	20.0
Emergency flood reconstruction project	May 4, 1989	1999/2029	54.9	75.0
Tanzania				
National agricultural and livestock research project	Dec. 13, 1988	1999/2028	6.0	8.3
Industrial rehabilitation and trade adjustment program	Dec. 13, 1988	1999/2028	97.6	135.0
Industrial rehabilitation and trade adjustment credit (supplemental credit)	Mar. 13, 1989	1999/2028	9.7	12.5
National agricultural and livestock extension rehabilitation project	Mar. 21, 1989	1999/2029	13.7	18.4
Cashew and coconut treecrops project	June 27, 1989	1999/2029	19.4	25.1
Togo				
Third structural adjustment credit (supplemental credit)	Mar. 13, 1989	1999/2027	0.1	0.1
Grassroots development initiatives project	Mar. 21, 1989	1999/2029	3.8	5.0
Preinvestment project	May 18, 1989	1999/2028	3.9	5.0
Telecommunications project	June 29, 1989	1999/2029	[illegible]	[illegible]

Country Purpose	Date of approval	Maturities	Principal amount (millions) SDR	Principal amount (millions) US$ equivalent
Uganda				
Third technical assistance program	Aug. 23, 1988	1999/2028	13.8	18.0
Public enterprise project	Nov. 8, 1988	1999/2028	11.7	15.0
Fourth education project	Nov. 15, 1988	1999/2028	17.1	22.0
Railways project	Feb. 21, 1989	1999/2029	5.2	7.0
Economic recovery program I (supplemental credit)	Mar. 13, 1989	1997/2027	1.3	1.7
Second telecommunications rehabilitation project	Mar. 14, 1989	1999/2029	38.3	52.3
Economic recovery program (supplemental credit)	April 20, 1989	1997/2027	19.0	25.0
Vanuatu				
Primary and secondary education project	Nov. 15, 1988	1999/2028	6.3	8.0
Western Samoa				
Telecommunications project	June 8, 1989	1999/2029	3.6	4.6
Yemen Arab Republic				
Eastern Region agricultural development project	Jan. 31, 1989	1999/2029	11.0	15.0
Institutional development for public administration project	May 12, 1989	1999/2029	8.2	10.8
Yemen, People's Democratic Republic of				
Al Mukalla water supply project	July 19, 1988	1999/2028	8.7	12.0
Second health development project	Dec. 13, 1988	1999/2028	3.5	4.5
Third Wadi Hadramawt agricultural development project	June 22, 1989	1999/2029	9.3	12.0
Zaire				
National AIDS control program assistance project	Sept. 8, 1988	1999/2028	6.2	8.1
Agricultural sector management and institutional development project	Oct. 20, 1988	1999/2028	9.0	11.6
First transport rehabilitation project	May 30, 1989	1999/2029	57.3	75.0
Second Gecamines technical assistance project	June 27, 1989	1999/2029	15.4	20.0
Total			3,738.1	4,933.6

NOTE: Starting with the sixth replenishment of IDA, credits are expressed in special drawing rights (SDRs). The US-dollar equivalent of the original principal amount of credits denominated in SDRs is shown at the rate approved by the executive board. All credits approved in fiscal 1989 have a service charge of 0.75 percent on the unwithdrawn balance.

PREPARED STATEMENT OF REV. J. BRYAN HEHIR, TH.D., PROFESSOR OF ETHICS, KENNEDY INSTITUTE OF ETHICS AND SCHOOL OF FOREIGN SERVICE, GEORGETOWN UNIVERSITY

I appreciate the opportunity to testify before the House Select Committee on Hunger. The Committee has a history of focusing upon questions of human need which often are overlooked or overwhelmed in the normal policy debate. I believe one reason I have been invited to testify in this hearing on The World Bank and PL 100-240 is because of an earlier appearance I made before the House Banking and Finance Committee on Third World Debt. In that testimony I represented the U.S. Catholic Conference (USCC); while I still work for the USCC, I testify today in my own name as a member of the faculty at Georgetown University's School of Foreign Service.

The purpose of this testimony will be to highlight the significance of PL 100-240 and the need to pursue its mandate to encourage and influence World Bank policies, particularly those affecting the International Development Association (IDA), to increase their attention to and priority of poverty alleviation in developing countries. My focus will not be a review of the empirical performance of the Bank, but an argument about the political context - international and domestic - which surrounds PL 100-240 and which illustrates the significance of the legislation and its role in U.S. policy formulation. My remarks will address three topics: (1) the significance of PL 100; (2) substantive issues of policy raised by PL 100; and (3) the shape of the U.S. policy debate on development issues.

I. The Poor and International Politics: The Significance of PL 100-240

In my view PL 100-240 has both procedural and substantive significance which ought to be recognized. Procedurally, the legislation is the product of several distinct initiatives and a series of conversations among quite different institutions. The centrally important contribution was HR 3750 passed by the House of Representatives; but the role of non-governmental agencies, especially the Friends Committee on National Legislation, was a crucial element in pressing this initiative; and the engagement of both the U.S. Treasury and the staff of the World Bank itself with the non-governmental agencies hopefully established a precedent which can be enlarged in the years ahead.

The substantive significance of PL 100-240 lies in the conception of development it seeks to promote and the place it seeks to provide for the poor in world politics. The concept of development advanced reflects very much that of Pope John Paul II in his 1987 encyclical The Social Concern of the Church: it is development which starts with the participation of the poor and which is judged by what impact any development proposal has on the dignity and human welfare of the poor.

This view of development, however, will not be adopted or promoted unless the fate and future of the poor assumes a new position in the wider agenda of world politics. While PL 100-240 is a single piece of legislation, affecting U.S. policy toward the World Bank, my point today is to argue its significance in terms of the emerging setting of international politics in the 1990s.

To assess international politics in 1990 is to recognize that we stand at one of the fault-lines of modern diplomatic history. The events of the 1980s in the Soviet Union, in Europe and in the

U.S.-Soviet relationship have recast the international order. The decade of the 1990s resembles other fault-lines in world affairs 1815; 1919; and 1945. To use Dean Acheson's evocative phrase, to make policy today is to be present "at the creation". The creation in question is the shaping of a post-cold war international order.

The order Acheson helped to design, the order of the Marshall Plan, NATO and Bretton Woods defined two broad tasks. First, the security order: the task, viewed retrospectively, was to design policy for an ideologically divided world in which the two major powers were destined to possess a destructive capacity unknown in human history. The security challenge was how to protect personal and political liberty in the West and to prevent nuclear war with the East. The second task was economic and it had two dimensions: how to rebuild and reintegrate the economies of Western Europe and Japan in a viable international order and how to provide an economic future for people and nations throwing off their colonial status.

One way to interpret the policy of shaping the new order of the 1990s is to say that the old order produced a clear victory, an emerging possibility of success and a failure. The clear victory is the robust economies of Western Europe and Japan. The possibility of success is the solid opportunity of the 1990s to fashion a much safer, more stable superpower relationship, with a declining role for nuclear weapons and major opportunities for very deep cuts in defense arsenals across the East-West divide.

The failure is our continuing inability to address the human needs of the vast majority of the population in developing countries. Some will understandably contest my judgment; World Bank statistics illustrate how living standards in developing countries have risen in the aggregate over the last forty-five years.

But this fact must be set alongside the following realities of 1990:

a) World Bank data record over 1 billion people living on less than $375 per year, the condition of absolute poverty which Robert McNamara once described as "beneath any definition of human decency."

b) The U.N. General Assembly's 1990 Special Session on International Cooperation reported that:

> "For many developing countries, the 1980s have been viewed as a decade lost for development. Living conditions in Africa and Latin America and the Caribbean, and in parts of Asia, have deteriorated, and economic and social infrastructure has eroded, imparing stability and prospects for growth and development...The position of developing countries in international trade and finance has substantially weakened...External indebtedness emerged as a main factor in the economic stalemate in the developing countries. Their capacity to service debt was seriously weakened as interest rates grew and terms of trade deteriorated."

c) The state of policy debate has changed depressingly; from the 1950s through the 1970s, the focus of intellectual and political attention was on the possibilities of development for people and nations; the 1980s the focus has been the debt of these nations. Today we can't think or talk of development because the fact of debt overwhelms the possibility of development.

d) Finally, to concretize the costs of a process which has shifted from development to debt repayment, I cite the 1989 UNICEF report:

> "It is children who are bearing the heaviest burden of debt and recession in the 1980s. And in tragic summary it can be estimated that at least half a million young children have died in the last twelve months as a result of the slowing down or the reversal of progress in the developing world."

Two successes and a failure in the broad strokes with which history is painted may qualify as commendable particularly when one of the victories has been avoiding nuclear holocaust. But I suggest that the data I have just recorded - particularly the UNICEF judgment, must shape the definition of the very center of world politics in the 1990s. The building of the new order, necessitated by the erosion of the order we have known since the 1940s, opens the possibility for positioning the fate and future of the poor at the center of the policy process. Other issues of security and economics inevitably will be at the center, but the chance to focus on the least successful element of the old order is what I seek to stress.

PL 100-240 is a single legislative measure; my point is that its significance lies in the larger reality to which it points. Almost three thousand years ago the Hebrew prophets said that the quality of a society's faith and vision could be tested by the character of justice in the land, and the character of justice could be measured by how the children were treated. The prophets' test indicts the existing international order as a moral failure - at least in one major goal we set for ourselves four decades ago. The 1990s - a try at a new order - open the possibility of meeting the stringent test posed by the intersection of the ancient voice of the prophets and the recent report of UNICEF. The new order requires multilateral institutions which can channel the resources of nations and peoples into a redesigned and renewed effort of development. PL 100-240 is a specific attempt to contribute to that much broader process. In this rests its significance; I turn now to substantive challenges which this initiative faces.

II. International Politics, Interdependence and the Poor: Sovereignty, Human Needs and Human Rights

Shaping the international order of the 1990s means addressing in political and moral terms the fact of interdependence. The growing interdependence of the international system - a creation of technology, communication and an integrated world economy - is recognized by all analysts. But, as John Paul II noted in his 1987 encyclical, the fact of interdependence by itself does not guarantee justice in the international system. Factual interdependence must be shaped by moral interdependence. A factually interdependent world is poised between two possibilities - greater community or a descent into chaos. In the contemporary international system all nations are interdependent but not all are equally dependent. The kind of development policy envisioned by PL 100-240 will only result if the policies of states and the programs of international institutions (like the World Bank) are governed by a vision committed to directing material interdependence toward moral interdependence.

One way to define fundamental policy issues which both states and multilateral institutions must face in shaping interdependence is the relationship of sovereignty, human needs and human rights. Sovereignty has been the key concept of the international order since the 17th century. It remains both critically important and in need of some redefinition. The implications of PL 100-240 illustrate both aspects of the status of sovereignty. First, in an interdependent world of very unequal states, sovereignty constitutes protection for small states, a circle of relative freedom which protects the idea of self-determination and the right to set the direction of one's destiny. Part of the concern of the non-governmental organizations in proposing PL 100-240 was, I believe, a sense that the structural adjustment model used by both the IMF and the Bank in responding to the debt status of developing countries constitutes a *de facto* if not *de jure* infringement on sovereignty. I say this aware of the purposes of some adjustment and of its necessity in specific cases. But a set of essays on the concept of intervention captured my concern when it contrasted the declining frequency of old fashioned intervention (with troops and guns) with the rising incidence of multilateral intervention represented by the "conditionality model". It is not only the fact which this policy can pose which troubles many observers, but which conditions are regarded as legitimate and relevant. Because "adjustment" is inevitable in debtor countries, and because development is the basic mission of the Bank (if not the IMF), non-governmental agencies and others object to the lack of specific "conditions" which would protect the poor during the process of adjustment. Often the answer is that such conditions go beyond the competence of multilateral institutions and constitute an infringement on sovereignty. Macroeconomic conditionality is regarded as legitimate, targeted concern for the poor as interventionary. Assessing sovereignty and interdependence today, I would argue both actions are interventions and some combination is needed to justify the intervention.

Such a proposal points to a second dimension of the PL 100-240 proposal. It seeks more explicit action by the World Bank - particularly as it applies to IDA funding - to guarantee national strategies directed toward the poor. I support the proposal, believe it fits the mandate of IDA, and yet I am sure it will meet resistance in the name of sovereignty and national self-determination. In the much more integrated political setting of the United States of the 1960s, states and cities at times resisted targeted federal programs for the poor because they were seen as politically threatening.

In support of the PL 100-240 proposal for greater specificity concerning poverty alleviation, I think it is useful to note the change which has occurred in international politics and law regarding human rights. Prior to the establishment of the United Nations, the protection of human rights was not regarded as a responsibility of other states: state sovereignty had superior claims to individual human rights. That conception does not apply today. The protection and promotion of human rights is the responsibility of the international community. The specific attention which PL 100-240 requires of states in meeting basic human needs is, in my judgment, simply an extension of the logic of human rights to human needs, encompassing now not only the responsibility of states but of multilateral institutions supported by states. Fulfillment of this responsibility does not stop for states or institutions with making demands for programs designed to meet the needs of the poor, it also extends to a positive policy of providing the external conditions and resources without which developing countries lack the possibility of addressing human needs. The implications of PL 100-240 point beyond IDA and the Bank to debt relief, trade policy and other programs of foreign assistance.

III. The Shape of the U.S. Policy Debate

While PL 100-240 is directed toward the World Bank and U.S. policy, it points toward the place of the poor in the U.S. policy debate. This hearing, therefore, offers the opportunity of making a final point about the wider fabric of policy.

The danger of the moment, in my view, is that the very possibility and complexity of reshaping the security issues of the old "East-West" relationship may absorb all the intellectual energy and policy attention which the Administration, the Congress and others can muster. Building on the successes of the old order is a more enticing possibility than recommitting our policy to the very unfinished legacy of the old "North-South" agenda.

But to forsake this task, to reshape only a partial order of world politics would be a tragic and culpable political and moral failure. There were many reasons why the poor were not at the center of shaping the order we have known for 45 years - they were in the picture but at margin. In the new order yet to be constructed we can shape a new conception of order and security. It must include the old issues of superpower relations, keeping the peace and reconstituting the "new Europe", but in the 1990s no conception of international order will pass the test of historical scrutiny which fails to address the human needs and human dignity of the poor. PL 100-240 is larger than it looks; it points toward this distinctive policy possibility in the final decade of this tumultuous century.

PREPARED STATEMENT OF MAURICE WILLIAMS, SENIOR FELLOW, OVERSEAS DEVELOPMENT COUNCIL

PERSPECTIVES ON POVERTY ALLEVIATION -
ROLE OF THE WORLD BANK AND OTHER DONORS.

by Maurice Williams

Introduction - Reform of Developing Country and Donor Policies

There are about a billion poor people in the world, a fifth of the world's population. The poor are characterized by chronic malnutrition and hunger, lacking enough income to meet basic needs. Despite advances in development, more people are poor today than in recent history, in part because there are more people in low-income regions where most of the poor are located.

Economic performance has been unacceptably weak in many low-income countries in the past decade, despite their need for rapid economic growth and an appropriate socio-economic framework for poverty alleviation. Growth rates have been pervasively low, per capita food production has declined, population growth has been high and there has been an increase in poverty.

There are many reason for this poor performance.

Policy deficiencies in these countries have contributed to the disappointing performance. Mobilization of resources has been inadequate. Savings rates were negative in more than a third of the less developed countries (LDCs) for which data is available. In many cases the direction of investment also has been deficient. There have been increasing expenditures on non productive sectors, including military expenditures. Institutional weaknesses and lack of consistent political leadership also should be recognized.

Among external factors, there is the dramatic fall in the price of many primary commodities and deterioration in the terms of trade.

Programs of economic assistance also have been weak in many respects. Most aid - including that of the U.S. is not directed to the poor. A predominent 70-75 per cent of overall development assistance is provided by bilateral programs and the rest by multilateral agencies - each with differing aid policies, procedures and interests. Overall some 35 development assistance agencies pursue their own agendas, resulting in a fragmentation of LDC investment efforts.

Consequently, donor agencies are part of the problem of weak and discordant policies within developing countries, particularly the aid-dependent poor countries.

It is now accepted that major policy reforms are required by most LDCs and the World Bank has taken the lead in assisting with essential reforms. Less well accepted, however, is the need for reform of donor assistance programs and practices if the efforts of development poverty alleviation in poor countries are to be effective.

Importance of Aid Coordination

Improving aid coordination - among donors and between the donors and recipient LDCs - has been accepted as a major responsibility by the World Bank, as well as the UN Development Program as a means for improving the effectiveness of aid . This responsibility has been met by periodic country reviews for dialogue among senior donor and LDC officials on appropriate development policies and strategies and related aid funding requirements. LDCs and aid donors also are engaged in a variety of local coordination arrangements. However, the contribution of coordination processes to the effectiveesss of aid has yet to be fully realized, in part because of the diversity of donor and LDC objectives.

Aid coordination in its broader aspects should embrace all LDC domestic as well as aid resources. In any case, coordination can only be effective to the extent that there is wide agreement on a strategy of development and poverty alleviation and prioritization of funding requirements.

Aid coordination assumed special importance in support of structural adjustment and reform programs set up as an initital response by the World Bank and IMF to the severe effects of the world trade recession in the early 1980s on LDC economies.

Structural Adjustment Programs in LDCs

In the mid-1980s there was a convergence of view among most LDC governments on the need for policy reforms in order the change the pattern of investment and to restructure production for import saving and diversification of exports. The reform movement was given strong impetus by endorsement of the Special Session of the UN General Assembly in 1986 for African countries, which concluded that past development strategies should be redirected in favor of comprehensive policy reforms and adjustment.

Most less developed countries have adopted structural adjustment programs (SAPs) and embarked on comprehensive economic reforms with the assistance of the World Bank, IMF and the bilateral donors. They are undertaking these reforms in spite of political difficulties encountered as a result of decline in per capita incomes and investment. The reforms include de-emphasizing the role of public enterprises in favor of the private sector, export incentives through substantial devaluation of their currencies, reduction of subsidies and decreased government spending to control inflation, and efforts to liberalize their trade regimes.

On the whole the World Bank/IMF-led structural adjustment programs and the mobilization and coordination of donors assistance in support of reform efforts must be counted as a remarkable response to the severe financial crisis of LDCs . The reforms initiated provide important building blocks for longer-term development strategies.

However, the earlier SAPs were flawed in being designed as essentially short-term bridging operations to tide the LDCs over until the recovery of primary commodity markets on which poor countries are heavily dependent. They erred in concentrating on macro-economic recommendations aimed at early export-led economic recovery for those countries. It now appears that most commodity markets will remain depressed, and that many poor countries are being marginalized by economic trends which increasingly limit their access to world trade, finance and technology. In part, because early recovery was expected - as in fact occurred for the industrial countries - the SAPs made little allowance for either the continuing effects of recession or the social costs resulting from both recession and adjustment.

The marginalization and increasing poverty of already very poor countries is a great tradegy. Many factors contribute to their problems, namely reduced trade earnings, high population growth, falling incomes and the necessity to cut back government budgets and services. SAPs have not been well designed in terms of alleviating the effects of such economic regression on the poor, but it is misleading to blame the World Bank's initial efforts with structural adjusment for the plight of these countries.

Some advocate forgetting serious development efforts for the economically marginalized poor countries: forget investment for economic growth, they say, and regard these countries as permanent welfare cases. In this proposed triage, aid to poor countries would be mainly to help them meet basic human needs combined with comprehensive family planning programs. This is an advocacy of despair which leaders of developing countries resent and resist.

The Evolution of Recent World Bank Development Policy

World Bank policy took a dramatic turn in the 1980s when, in effect, a new "structural adjustment Bank" was created within the old "projects Bank". Over the years the project-oriented World Bank had primarily emphasized capital assistance for physical infrastructure, social overhead, agricultural modernization, and public services for low-income groups.

With the recession and severe debt crisis of the 1980s, however, the World Bank was directed away from such a heavy concentration on capital projects to economic policy-based lending. Without policy reforms, projects were less viable investments. Consequently, emphsis shifted toward persuading governments to change their thinking about public expenditures, export orientation, agricultural prices, debt management and the like.

The Bank's shift toward structural adjustment and policy-based lending has been viewed with alarm by activists concerned with poverty alleviation. But policy-based lending in itself is not inherently anti-poor. To the contrary, while the impetus for much policy lending was initially narrow - namely to correct imbalances - policy reform, itself, has the potential to address broad development and anti-poverty objectives. In the policy loans of the last few years, the Bank has encouraged a wide range of policy reforms that are generally pro-poor, i.e. increased emphasis on primary education and primary health care, incentives for up-grading services in slum areas, measures to offset the adverse effects of macro-policy adjustment. These initiatives generally emanated from within the Bank -- supported by outside pressures in some cases, in others not.

The World Bank recently acknowledged the limitations of past structural adjustment programs for the less developed countries. In a report issued in November 1989, entitled Sub-Saharan Africa: From Crisis to Sustainable Growth, the Bank outlined elements of a long-term development strategy. Reviewing Bank experience with SAPs for low-income countries in the 1980s, the report calls for "adjustment with a difference" - better phased and implemented, more adequately funded and strongly focused on protecting the poor and vulnerable. Improved sectoral programs are also called for, with particular emphasis on human resources to strengthen LDC skills and institutions.

Redirecting economic policy reforms to accommodate the basic needs of the poor is a positive development. The whole thrust of the Bank report on long-term development for Africa is for development strategies based on LDC initiatives to adopt their own structural adjustment and reform programs which incorporate poverty alleviation, with LDC commitment to reforms adequate to the scale of the investment and aid proposed. On this basis, donors would undertake to provide more adequate financing and to respect the discipline of mutually agreed LDC priorities in a renewed compact between the LDC government and its assistance partners.

It has long been a fundamental of American aid policy that aid should be directed to that social overhead investment - in both human and physical terms - which encourages an energetic private sector and higher levels of private investment as the essential means for economic progress. This model of development is now near to universal acceptance with the understanding that a reasonable balance must be maintained between growth and equity, or growth with equity.

In the coming era with increased emphasis on private initiative and the broadening of popular participation, the poor in developing countries will gain more influence on programs affecting them. Inevitably, organizations representing the poor will articulate positions on previously sacrosanct matters such as land reform, military expenditures, export and industrial policy. Gradually the Bank will widen the range of participants in policy dialogue. Already, the Bank has made a considerable opening in communication with NGO consortia such as Solidarios in Latin America, FAVDO in Africa, ANGOC in Asia, and others.

Under extreme pressure from activist environmental organizations, as of September 1990 the Bank is required to hold in-country discussions on all projects with a possible environmental impact (about 25 per cent of the Bank's lending). The Bank should welcome the trend toward public engagement and empowerment of its beneficiaries.

At the same time, it is important to recognize the limits of external pressure and "programming from the outside" on the pace and effectiveness of LDC reform and development.

"Programming from the outside" weakens LDC capacities

The current aid process for LDCs places too much hope on the effectiveness of "planning from the outside" for development. It does not seem possible that aid programs and projects can be fully effective unless the LDC government itself takes the lead in improving its planning and management capabilities or the donors take the stance of delaying project financing opportunities even when that means they will not reach their targeted program aid levels.

One of the great difficulties with assistance programs is the relative LDC weakness in policy and management capabilities. This has led the international agencies and bilateral donors to use their aid to exercise excessive influence on the development programs of LDCs. It must be said that the very intensity and weight of donor influence has tended to diminish the role and, in some cases, actually weaken the capabilities of LDC governments in the coordination and management of aid and other resources.

It is true that some LDCs do not use aid well and that in the early crisis of the 1980s there may have been reason for exceptional donor direction.

However, it is now timely to redirect aid programs in ways that build LDC capabilities to manage the resources available to them more effectively - thereby putting them in a position to exercise their responsibility for aid coordination and management as part of their national development policy. This will require major changes and reforms in donor aid programs, since they are not now effective in building up institutional and management capabilites of the LDCs.

Invariably, reforms imposed in SAPs which are dependent on LDC institutional follow-up are not progressing. On the contrary, management capabilities in a number of LDCs have continued to deteriorate. This concern particularly affects the programming and direction of technical assistance which constitutes 25 per cent of development aid to poor countries.

One reason for this weakness is that much technical assistance is donor-initated and driven - rather than being responsive to LDCs perceived needs and requests. Many donor-funded projects are in the hands of expatriate personnel with little control by - or even reporting to - the host country. The irony is that, in their eagerness to get thing done, donors tend to reduce LDC participation and responsibility, thereby undermining efforts to strengthen local institutions - the ultimate objective of development aid.

The dilemma persists for donors that when a recipient government is either unwilling or unable to perform certain functions which the donors consider important, the latter end up doing what the government should do on its own and programming from the outside. As a result even when the efforts of the donors might appear to be succeeding in the short run, the process does not become institutionalized and the recipient's internal system rejects it when donor interest slackens.

When aid programs are sustained mainly by policy-making from the outside, they become counter-productive, and both the donors and the recipient tend to justify in development terms what in fact is not happening in order to keep the aid flowing. Some LDCs are simply "selling" poverty or whatever else pleases donors for the aid involved and some donors do not accept the discipline of policy reforms for poverty alleviation, pursuing their special interests and the sale of equipment and services as well as their ideology.

Toward More Effective Aid for Poverty Alleviation

It is now timely to redirect aid programs in ways which build LDC capabilities to manage the resources available to them more effectively - thereby putting them in a position to exercise responsibility for their national development.

Aid programs in support of LDC strategies should recognize that: a) while the World Bank and other donors have an obligation to engage in dialogue on development objectives and required assistance, the central responsibilty for these programs must reside with recipient LDC government, b) all donors participating should adher to the consensus on priorities, and c) the coordination and review process must include consideration of the allocation of domestic as well as aid resources in the fulfillment of development objectives.

One can be hopeful for the future since there is a new realism in terms of understanding the problems of low-income countries and the essentials of effective development. This new realism recognizes the importance of longer-term approaches which build patiently and slowly on LDC prospects and capabilities. The return to the World Bank's earlier emphasis on economic growth with equity is constructive.

In this regard, "The Productive Economic Participation of the Poor Act" passed by Congress helps to reintroduce concepts of social justice and equity into the aid equation. I believe the World Bank has the message and is making good progress in its efforts to better research and devise measures for alleviating poverty. The World Bank's core poverty programs are good indicators of progress. And the Bank's on-going work on "poverty profiles", food security assessments, and Living Standards Measurement Survey provide the means for encouraging and strengthening LDC poverty programs.

At the same time, economic growth and the policies which encourage growth, such as private sector development, are of contining importance.

LDCs should be encouraged to adopt national poverty eradication strategies or programs as a means of keeping a more effective focus on equity issues and objectives. As former Executive Director of the United Nations World Food Council, it was my responsibility to encourage "national food strategies" for LDCs to help focus attention on the importance of better food policies and related investment programs. These led to the current food security plans for developing countries.

In my judgement, it would be a mistake to impose conditions on the number of countries that must adopt national poverty eradication strategies or otherwise condition aid on advocacy and planning from outside for less developed countries. This would be a continuation of earlier donor arrogance, however, well intended, that has been ineffective in the past. The process of policy reform in large measure must proceed from example, from dialogue and from appropriate assistance and education.

It is the citizens of developing countries which must reform and direct their governments. And private sector development is itself a strong factor encouraging empowerment in this respect.

PREPARED STATEMENT OF CHANDRA HARDY, INTERNATIONAL DEVELOPMENT TRAINING INSTITUTE

World Poverty in the 1990s and the Response of MDBs

We have lost the war on poverty. Despite the commitment, the efforts, the studies and the billions of dollars of development assistance over the past thirty years, hunger and malnutrition are widespread, the gap between the rich and the poor has widened and many developing countries in Latin America, Asia and Africa are struggling to regain living standards of ten, twenty or even thirty years ago.

What went wrong? What happened to all these resources? How was the money spent? Was the error in the analysis of the problem or prescription? Who is to be held accountable? and to whom? These questions remain unaswered and for the most part unasked. If we are not interested in what has past, we ought at least to ask what are we doing now that is different or better.

Despite the failure so far of our efforts at development, the alleviation of world poverty is still not the highest priority on the development agenda. It comes somwhere after GNP growth, sound fiscal and balance of payments policies, privatization and trade liberalization. It has no place in the policy framework papers (PFPs) which establish the lending programs and conditionalities of the World Bank and the IMF and even the bilateral agencies.

State of World Poverty

The number of people living in extreme povery has almost doubled from about 800 million in the early 1970s to roughly 1.5 billion.

Figures of this magnitude are beyond our understanding. When 500,000 people gather on the Mall in Washington D.C. we know that we have a successful demonstration. But it is difficult to imagine 3000 times that many people waking up and going to sleep each day hungry. They are truly the wretched of the earth. They live in makeshift dwellings, they are sick and illiterate, and they die twenty years before we do.

It is not only the numbers that have grown. The share of the population living in these conditions has increased to an estimated 60% of the population of Latin America and Africa. And the same ratio applies to many countries in Asia, such as Bangladesh, Burma, Nepal, Pakistan, Afghanistan, Phillipines, Vietnam, Cambodia and Laos.

(The reduction in the overall percentage for the developing countries as a group comes about because of the heavy weight of India and China in the total, and progress in reducing hunger in India has probably more to do with good weather over the past decade than any other factor).

Why is there so much poverty?

The root cause of world poverty is an unjust world order. A small number of rich countries claim a disproportionate share of the world's income and resources.

A second reason is that the disparities of income and wealth at the national level is even greater. The top 5% of the population of the developing countries claim 25% or more of their national income while the bottom 40% has to make do with about 20% of the income.

Third, the functioning of the world economy is guided by a set of trade and financial arrangements which ensure that the rich not only keep their priveleged position but improve upon it. Hence the widening of the income gap both among and within countries.

Global poverty is not a recent phenomenon. The poor did not do well when the world economy was growing at the unprecedented rate of 5% per annum between 1950 and 1975. The benefits of this growth had largely by-passed poor countries and the poorer groups in developing countries. This finding undermined the thesis that the benefits of high growth would "trickle down" to the poor, and it provided support for a more direct approach to meeting basic needs.

Several of these new style projects were tried (integrated rural development, sites and services etc.,) and priority was given to the social indicators in World Bank country and project reports. But before this shift in lending strategy could get very far, the world economy had to adjust to the massive shifts in the terms of trade and payments imbalances which followed the oil price increases of 1974-75 and 1978-79.

The period 1973-80 was an especially bad one for the poor. Income losses from adverse terms of trade movements averaged 5-10% of GDP. Governments borrowed huge sums but could not prevent a severe erosion in living standards.

The period 1980-89 brought even greater hardship. Commodity prices continued to fall and on top of the deterioration in the terms of trade, the developing countries, particularly in Latin America and Africa were crushed by a heavy debt burden. The transfer of resources moved in a perverse direction with the developing countries severely compressing imports and consumption to meet debt service payments. The negative net transfer rose throughout the 1980s reaching $50 billion in 1989.

These figures cannot convey the full extent of the wasted lives, the helplessness and the sense of despair of the poor. For this you would have to revisit as I did the garbage dump outside Mexico City to find the third generation of families who are no better housed, fed or educated than their young grandparents. Or the African woman who has just walked eight miles to fetch water and who at night must keep in her hut the family's only asset, a cow. Or the schools like my own where the windows and doors are in disrepair, and there are no chairs, no books and no teachers. The sense of shame is overwhelming and the despair comes from the realization that the problem has grown much worse, and the ability of the poor to work their way out of this situation is weakened by the experience of the past two decades.

Role of the MDBs

The capacity of the MDBs to alleviate world poverty is limited by both general and specific constraints. The MBDs operate within the existing arrangements governing trade and financial relations between rich and poor countries and this imposes certain broad constraints.

For example, the artificial division of responsibility for trade and financial issues between the GATT and the Bretton Woods institutions. The MDBs point out that developing countries lose more from the trade barriers against their manufactured good exports than they receive in aid yet they help to perpetuate the unequal exchange by insisting on trade liberalization in an unfair trading environment.

Similarly, the MDBs do not make loans available for producer or marketing agreements to support the prices of primary commodities which have been falling steadily since 1955. Many products continue to face low demand prospects, and the emphasis on export growth therefore contributes to global oversupply conditions and further price declines.

Other general constraints are the unwillingness to lend to countries which are in arrears to the IMF such as Peru where a desperately poor peasantry has made Peru the world's largest producer of cocaine. Or the unwillingness to make IDA loans available to middle-income countries which cannot afford to pay World Bank terms for human resource development projects which will not earn the foreign exchange to repay the loans.

The specific constraints are those arising out of the way these institutions operate.

The establishment of sectoral priorities. The poor are primarily engaged in agriculture yet World Bank agricultural lending fallen from 31% of total lending in the 1970s to 16% in 1989. It is not possible to help women in development, or improve food security, reduce infant mortality, protect the environment etc., without higher investment in agriculture.

The choice of conditionality. The MDBs do not hesitate to make policy requirements in structural adjustment loans which place the heaviest burden of adjustment on the poor and which are politically controversial. Yet they shy away from conditionality that would require progress in reducing income and wealth disparities, such as land reform on the grounds that these are too controversial.

General McArthur did not let controversy stand in the way of land reform in Japan after the war. In the 1950s and 1960s, US policies in India and Korea supported the modernization of peasant agriculture. China's success in reducing poverty after 1947 is a reflection of the its land reform programs. These are the lessons of history and common sense. We cannot end hunger if we do not end landlessness and raise the productivity of small farmers.

Emphasis on Project Lending. The particular definition of a project (large, capital intensive) and the decision to finance only their foreign exchange costs mean that there many activities that would benefit the poor that cannot be undertaken by the MDBs. The World Bank can build schools for example but it cannot pay for the salaries of teachers, or extension workers or paramedicals.

The excessive number of donors and donor agencies each wanting their own special project has overburdened the weak administrations in developing countries with hundreds and thousands of projects which widen the scope for corruption, inefficiency and waste.

To have an impact on poverty, an emphasis on programs that directly affect the poor, and a willingness to meet their local currency and recurrent costs would be better. It would also be better if donors would pool their resources on fewer projects and stay with one sector for more than one project.

I have focused on the MDBs because of their leadership role in the policy dialogue and in guiding the allocation of aid. There are no easy answers to the issued raised but we have a moral obligation to keep searching for answers and questioning what we do.

PREPARED STATEMENT OF NANCY C. ALEXANDER, FRIENDS COMMITTEE ON NATIONAL LEGISLATION

Section 501, P.L. 101-240,
"The Productive Economic Participation of the Poor Act"
(also known as the "poverty effort" proposal)

I. Introduction.

The Friends Committee on National Legislation (FCNL) is a legislative advocacy organization representing the peace and social justice concerns of many members of the Society of Friends. The policy of the FCNL directs us to advance those U.S. policies which would help assure that aid reaches the poorest people in poor countries. The "poverty effort" principle attempts to help accomplish this by changing the policies and practices of the World Bank and regional development banks.

The "poverty effort" principle states that the "poverty effort" or commitment of a government to eradicate poverty should be decisive in determining its aid allocation. Conversely, we suggest that there is no sense in the multilateral development banks (MDBs) wasting taxpayer dollars on aid to poor countries that show disregard for the welfare of their destitute citizens.

FCNL was staunchly supportive of the efforts of the House Banking Subcommittee on International Development, Finance, Trade and Monetary Policy to incorporate the poverty effort principle into legislation. A bill introduced in August, H.R. 3148, giving expression to this principle became law in December.* (See attachment A.) The section of the law enunciating the poverty effort proposal -- Section 501, P.L. 101-240 -- is called "Increasing the Productive Economic Participation of the Poor."

The law, if fully implemented, has potential for focussing the World Bank's attention on poverty in a meaningful way. Currently, it is our sense that poverty alleviation is a rather peripheral concern of the World Bank. Throughout the 1980s the Bank has concentrated on fostering economic growth and insisting, over the protests of many inside and outside the Bank, that growth would alleviate poverty. Of course, there are many instances in which growth has alleviated poverty. But there are also cases in which growth (for instance, in Brazil) has led to wider and wider gaps between rich and poor. The UN Development Program's new *Human Development Report* states that, "the link between economic growth and human progress is not automatic." It says that, "For human development, the distribution of GNP is as important as the growth of GNP."

---

*The bill was introduced by Representative Doug Bereuter NB on behalf of House Banking Subcommittee Chairman Fauntroy DC, Ranking Minority Member, Representative Jim Leach IA, and himself. It was incorporated into the Export-Import Bank bill, H.R. 2494, as Section 501.

Many mistake the Bank's increasing concern with mitigating the social effects of adjustment loans as evidence that the Bank puts a high priority on poverty eradication. However, we would claim that there is a distinction between attempts to minimize the harm of Bank operations to the poor or to women and attempts to constructively deal with the root causes of poverty. The Bank has an allergy to the word "equity." It holds that addressing equity infringes on the sovereignty of borrowers. However, it is the fortunate or unfortunate truth that development cannot occur unless it is participatory, broadly-based (reaching the poorest of the poor), and ecologically sustainable. Broad-based, participatory development cannot occur without fostering equitable patterns of economic change and growth by, for instance, addressing the serious problems of land and asset distribution.

By putting the poverty effort principle in force, we believe that the IDA Deputies (or donors) and the U.S. Congress have taken a step toward making the necessary assertion that poverty alleviation must be a more central purpose of the World Bank. Some development specialists view the attempt to focus on poverty alleviation as regressive -- implying that we would repeat the mistakes from the McNamara years rather than learn from them. We see such views as self-defeating and extremist.

In the 1990s, there is a need to institute new, untried approaches which would shape policy-based and project lending based on (a) advice and participation of the intended beneficiaries and (b) the distributive effect of loans. In the 1990s, we must not see the social and environmental dimensions of economic decisions as "externalities." Instead, economic decisions must derive from social and environmental values.

The risks entailed in NOT upholding social and environmental values are too great. Ironically, the actual and potential calamities befalling the environment are better known and understood than the calamities which are befalling or are threatening to befall humanity. There are a number of trends which portend major social dislocation and suffering -- particularly since strategies to stem or reverse these trends are inadequate or absent. Significant trends relate to: the increasing number of people living in extreme poverty, the causal link between poverty and environmental degradation, high levels of population growth, widening gaps between incomes and living standards within and between countries, and the increasing number of countries classified as "least developed" (42 countries compared with 24 countries twenty years ago). There is also a notable lack of political will to address the problems of growing debt ratios, sinking commodity prices, and significant net resource transfers from poor to rich countries.

Implementing the "poverty effort" principle would represent a modest, but significant step toward dealing with such fearsome trends. *In the testimony that follows, I will describe the principle more fully and then discuss the responsibilities that implementing the principle would entail for the borrowing country and the Bank.*

II. The Poverty Effort Principle.

Public law 101-240, Section 501 requires that the Secretary of the Treasury instruct the U.S. Executive Director for each multilateral development bank (MDB) to seek to establish as policy that aid allocation decisions by concessional arms of the MDBs should be based on the extent of a government's demonstrated commitment to poverty eradication. The law puts it this way:

> "Such bank should adopt, as a separate and major criterion in the allocation of concessional financing resources, a preferential allocation to each country which undertakes significant efforts to enhance the productive economic participation of the poor." Section 501(a)(8)

The Deputies met five times during 1989 for the purpose of establishing the policies and financial burden sharing terms for the ninth replenishment of IDA which extends from this month, June 1990, to June 1993. The United States Deputy, Assistant Secretary of Treasury for International Affairs Charles Dallara, endorsed the poverty effort principle at the Copenhagen negotiation last July. The principle was subsequently accepted by the donors:

> "IDA was asked...to increase the weight given in the performance criterion for the allocation of IDA resources to an effective commitment to poverty reduction by governments." (IDA9 Agreement, attachment C)

The Deputies also "recognized the importance of national poverty eradication plans and strategies" (IDA9 Agreement, attachment C) -- a corollary of the poverty effort principle, which will be discussed below.

The senior management of the Bank responded to pressure and directives by changing IDA's aid allocation formula by increasing the weight given to a borrower's commitment to poverty alleviation. The formula includes several criteria: lack of creditworthiness, per capita GNP, population, and performance. The senior management increased the poverty effort component of performance so that it now represents a third, rather than a quarter, of the total weight of the performance criterion. (Other aspects of performance are short-term economic management and long-term development management.) While this change is, in our view, inadequate, it is in the right direction.

We encourage this Committee to ask for a report from the Bank outlining the criteria for judging a country's poverty effort. In addition, we suggest that you ask for examples of countries which are performing well or poorly. This information will provide the Committee and the American people with information about how the Bank interprets its mandate and the extent to which the Bank takes its mandate seriously.

We are pleased that the need for the "poverty effort" principle is a, if not the, major recommendation of the 1990 *World Development Report* (WDR) on poverty. The Bank may issue a policy paper on the operational implications of the WDR -- including the implications of the poverty effort principle. *We hope that the Committee encourages the Bank not only to issue such a paper, but also to make it public. We urge the Committee to hold hearings in the fall on the manner in which the Bank is implementing the recommendations in the World Development Report.*

III. Responsibilities of the Borrower (which stem from the poverty effort principle)

The law recommends that each borrowing country develop a national poverty eradication strategy (NPS). Governments would be asked to work with grassroots organizations to develop goals for human betterment and for enhancing access to income-generating activities, employment, and productive assets -- as well as strategies for achieving such goals.

As mentioned earlier, the IDA Deputies "recognized the importance of national plans and strategies to eliminate the causes of and alleviate poverty." The U.S. Treasury Department and the U.S. Executive Director fully support the idea of developing national strategies through a consultative process. Senior Bank staff with whom I have spoken oppose it. One senior official believes that policies which are too poverty-focused will evoke a backlash from governments. It is my view that the poverty effort principle requires that governments which do not intend to address poverty receive little or no aid from the Bank. Public opinion surveys show that Americans support foreign aid *when they believe that such aid helps build the self-reliance of poor people.*

Bank officials also seem to have disdain for the word "plan" and view the concept of national plans as socialist. It would seem to me that management plans are fairly entrenched aspects of capitalist systems. Furthermore, it seems that objections to social planning, as opposed to economic planning, stem from the misguided belief that social plans are value laden and political and economic plans are value-free and apolitical. The Bank also prefers the terms poverty "reduction" or "alleviation" rather than the term "poverty eradication" which, from the Bank's viewpoint, may imply a misleading degree of political will. Despite or because of such linguistic landmines, I use the term "national poverty eradication strategy (NPS)" to refer to the process of defining and attempting to accomplish various goals which would eradicate poverty and establish more equitable societal norms.

Why are such strategies important? It is important for governments and citizens to have ownership and control of their own development process. Encouraging the development of national strategies is one way to help accomplish this goal. Also, it is impossible to measure progress toward objectives unless there are goals and a strategy for achieving them. The national strategies can provide this necessary framework. Bank officials have raised the spectre of the potential for creating more paper and the appearance of progress. But hopefully, when an evaluation of a country's "poverty effort" is performed in order to make aid allocation decisions, genuine plans can be distinguished from those which are a sham.

We were pleased to see that the UN Development Program's recent *Human Development Report* emphasizes the importance of national plans for human development to identify priorities and achieve global targets for human progress.

How are national poverty strategies (NPSs) different from the core poverty programs (CPPs) which the Bank is designing for a number of countries? NPSs originate with governments and their citizens and describe their aspirations -- as well as a strategy for achieving them. CPPs are simply a Bank classification of Bank-financed projects requested by governments. They do not established any coherence between individual projects and a national strategy. An NPS might include Bank-funded CPP projects or projects funded by other donors or by domestic resources. The idea is to coordinate the use of domestic and external resources to serve human betterment goals of societies. Finally, CPPs are comprised ONLY of projects, while a NPS might involve projects and/or adjustment programs with the explicit intent of benefiting the poor.

Before leaving this point, a further requirement of the law should be referenced. The law asks the U.S. to work to establish as policy that the banks should require countries receiving structural adjustment loans to have a national poverty strategy -- after a reasonable phase-in period. Structural adjustment programs have been injurious to the poor and it is our hope that national poverty strategies will have a countervailing effect.

The House of Representatives (specifically the Banking Subcommittee on International Development), in its effort to authorize U.S. participation and funding of IDA 9, is expected to direct the U.S. to work with the Bank to establish as policy the requirement that 50% of borrowers have such national poverty strategies in place by January 1993. The Development Bank Assessment Network (which is coordinated by the Friends Committee on National Legislation) supports the Subcommittee's proposed directive. All twelve recommendations advanced by the Development Bank Assessment Network relative to the IDA9 authorization by Congress are included as attachment B.

We urge you to request a report from the Bank which identifies any management or operational constraints to requiring borrowers to develop national poverty eradication strategies through a consultative process and which specifies how the Bank intends to overcome these constraints.

III. Responsibilities of the Multilateral Development Banks stemming from the poverty effort principle. Public law 101-240 issues directives which urge the U.S. to establish as policy that:

o policy dialogue should guide lending (for projects and programs) toward achievement of the goals of a country's national strategy. Furthermore, such dialogue would be significantly broadened to include not only relevant social and economic ministries, but also indigenous NGOs -- especially those with grassroots involvement with the poor. Broadening the dialogue would, indeed, constitute a breakthrough.

o In an annual review document, the banks should:

> "describe the extent to which the goal of increasing the productive economic participation of the poor is being advanced or retarded and the steps that are being taken to overcome obstacles to its fulfillment,"

The information for the determination should be derived from the two documents which the Bank routinely produces: country strategy documents and country implementation reviews. It will be significant if in fact the Bank modifies the content of its country strategy documents, as directed by the law, in order to describe the NPS and how the Bank is working with a government to accomplish its goals. Since the country strategy documents are *not even revealed to the Executive Directors of the Bank*, it is perhaps impossible to ascertain whether this will be considered or accomplished.

The IDA agreement just negotiated by 32 governments, however, requires that there be an annual country assessment (see para. 25 of the Agreement, attachment D) which WOULD come before the Board. Such annual country assessment could facilitate the preparation of the annual review, called for by P.L. 101-240, which would show whether or how the Bank is enabling the poor.

o the banks "should assist in assessing and monitoring progress in achieving poverty alleviation goals and targets through measurement by appropriate social indicators." This directive was also given to the administration by H.R. 4645 (now public law). It would be helpful to see the extent to which it has been carried out. The Bank has initiated the Social Dimensions of Adjustment (SDA) program in Africa and the Living Standards Measurement Study (LSMS). *We urge the Committee to determine the extent to which the directives of H.R. 4645 have been or are being carried out. We also urge you to ascertain the extent to which the SDA and LSMS build in-country capacity for monitoring and the manner in which the data generated by these programs are used to shape development strategies and make lending decisions.*

o the banks "should adopt procedures and budgetary allocations for administrative purposes, and establish appropriate staffing levels, to insure that adequate resources are available to implement the bank's program for enhancing the productive economic participation of the poor, in consultation with non-governmental groups." Reorganization cannot substitute for commitment. But revised staffing, participation policies and document foci might nudge the Bank toward greater commitment to address the rights and needs of the poor.

> *Staffing Issues.* It seems clear that the Bank reorganization left the institution with fewer junior staff...this is especially evident in the operational departments where the lack of sufficient personnel is most deeply felt. It is broadly acknowledged that to permit the popular participation sought by the law, incentives and staffing patterns would need revamping. Furthermore, staff in each country department should be trained and assigned to provide information and liaison services to NGOs.
>
> *Participatory processes:* (a) don't generally move a lot of money. They are not the big ticket items which advance a manager's career or stature. This needs to change. (b) They are time intensive and precluded by the current level of staffing at the Bank, (c) require individuals with training in the social sciences -- a rarity in today's Bank, (d) require a different type of project cycle -- one that can be flexible in response to the guidance of the "intended beneficiaries."
>
> We are supportive of the interest of the House Banking Subcommittee on International Development in including directives to the Executive Director in the IDA9 authorization which require him to work for policies establishing open hearing procedures that permit non-governmental input and review when projects are identified and prior to Board approval of any loan.
>
> *In the interest of an effective consultative process, we urge you to explore whether or how barriers to release of important Bank documents are being removed. In particular, we feel strongly that the intended*

beneficiaries or parties affected by Bank projects and programs have a right to see any social or environmental impact statement to which they contributed.

Documents. As mentioned earlier, the national poverty strategy (NPS) we propose would primarily be a country document -- developed with popular participation. In addition to implementing NPS reporting by borrowers, we advocate conducting social impact assessments of all proposed loans. Currently, such SIAs comprise a minor part of environmental impact assessments.

We urge the Committee to explore the manner and the extent to which social impacts are assessed and used in project or program design. Specifically, it would be useful if the Committee asked the Bank to report on how it would overcome constraints to conducting social impact assessments on all projects and programs. Currently, some social impacts are identified as part of the environmental impact assessment process. Needless to say, it is appropriate to assess the social impact of projects and programs which do NOT require an environmental impact assessment.

So far, we have focused on new reporting systems we advocate. However, current Fund/Bank documents also need reevaluation and revamping. The most important is the *Policy Framework Paper (PfP).* PfPs, which stipulate the the macroeconomic and sectoral goals and expectations for the lending program, are negotiated by the Fund, the Bank and the borrowing government and cover a three-year period. *Although 85% of IDA borrowers have PfPs which govern the terms of their lending, and although IDA borrowers are, by definition, very poor, PfPs do not address how lending should help overcome poverty.* The PfP is a Fund-driven, and Fund-defined document; thus, its overarching and nearly exclusive concern with adjustment is understandable. However, we take issue with this focus. Unfortunately, Bank officials are not taking issue with it. They join Fund officials in asserting that PfPs -- synoptic documents of about 20 pages -- must not be "weighed down" with poverty concerns.

The *country strategy paper* contains the rationale and purpose for Bank lending to each borrower. *We urge not only that these strategy papers detail the extent to which the Bank is helping a country accomplish its national poverty eradication strategy (NPS), but also that these papers be made available, at a minimum, to the Executive Directors.* It seems unreasonable to expect Executive Directors to make informed decisions about lending programs without understanding the basic intentions and motives for Bank engagement in the development efforts of borrowers.

The Bank increasingly has *Environmental Action Plans (EAP)* for countries -- detailed 40 or 50 page papers describing goals and strategies for environmental protection. The closest the Bank seems to come to poverty actions plans is the Core Poverty Program (CPP), but the CPP involves no goal setting or long-term strategy. Rather it is a grouping of poverty-oriented projects; it does not even address the relationship of macroeconomic policies to poverty.

Interestingly, the Bank does do *"poverty profiles"* -- especially in Africa. At times, these profiles are translated into economic and sector work and thus become the analytical basis for recommendations relating to the country strategy papers. However, *country strategy papers* (which, as mentioned elsewhere, are not even shared with the Board) rarely address poverty-related issues.

Finally, there is the annual *business plan* which is done for each country and country department indicating the objectives of the lending program and the resources, staffing and coordination required to achieve such objectives. At times, the business plan will address poverty reduction objectives and participation issues. However, it seems clear that the Bank has no systematic and strategy approach to addressing poverty. Instead, there is a piecemeal approach to dealing with poverty.

We appreciate this Committee's attention to understanding the directives and intent of P.L. 101-240 -- as well as the issues relating to its implementation. We hope that you will take the recommendations we have made in this testimony seriously. We look forward to working with you as you develop conclusions and recommendations for U.S. participation in the World Bank and regional banks.

Attachment A.

TITLE V—ALLEVIATION OF POVERTY; ENVIRONMENTAL PROVISIONS; DEBT-FOR-DEVELOPMENT SWAPS; CONSOLIDATION OF REPORTING REQUIREMENTS

Subtitle A—Alleviation of Poverty

SEC. 501. INCREASING THE PRODUCTIVE ECONOMIC PARTICIPATION OF THE POOR.

22 USC 262p-5.

The International Financial Institutions Act (22 U.S.C. 262c et seq.) is amended by redesignating section 1613 (as so redesignated by section 206 of this Act) as section 1614 and by inserting after section 1612 (as added by such section 206) the following:

"SEC. 1613. DISCUSSIONS TO INCREASE THE PRODUCTIVE ECONOMIC PARTICIPATION OF THE POOR; REPORTS.

"(a) In General.—The Secretary of the Treasury shall instruct the United States Executive Director for each multilateral development bank to vigorously and continually advocate, in all replenishment negotiations and in discussion with other directors of such bank and with such bank, the following:

"(1) A major objective of such bank's operations and financing in each borrowing country, as a long term priority, should be to increase the productive role of the poor in the economy of such country.

"(2) Such bank should encourage and assist each borrowing country to develop sustainable national plans and strategies to eliminate the causes and alleviate the manifestations of poverty which keep the poor from leading economically and socially productive lives. Such plans and strategies should give attention to—

"(A) the enhancement of human resources, including programs for basic nutrition, primary health services, basic education, and safe water and basic sanitation;

"(B) access to income-generating activities, employment, and productive assets such as land and credit; and

"(C) consultation with public sector social agencies and local non-governmental organizations.

"(3) As an integral element of ongoing policy dialogue with each borrowing country to design structural adjustment plans and project lending programs, such bank should provide assistance consistent with achieving the objectives of the country's national plan for increasing the productive economic participation of the poor. Such dialogue should be conducted with government agencies working in social and economic sectors and with non-governmental groups in the borrowing country, especially those that have grassroots involvement with poor people.

"(4) In an annual review document, such bank should describe the extent to which the goal of increasing the productive economic participation of the poor is being advanced or retarded and the steps that are being taken to overcome obstacles to its fulfillment. Such review should be based on information contained in the bank's country implementation review documents and in the country strategy documents for each borrowing country. Such country strategy documents should describe the national strategy for productive economic participation of the poor and the steps the bank plans to take to assist the borrowing country during the period covered by the country strategy document.

"(5) Such bank should assist countries in assessing and monitoring progress in achieving poverty alleviation goals and targets through measurement by appropriate social indicators.

"(6) Such bank should adopt procedures and budgetary allocations for administrative purposes, and establish appropriate staffing levels, to ensure that adequate resources are available to implement the bank's program for enhancing the productive economic participation of the poor, in consultation with nongovernmental groups.

"(7) Such bank should adopt, as a separate and major criterion in the allocation of concessional financing resources, a preferential allocation to each country which undertakes significant efforts to enhance the productive economic participation of the poor.

"(8) Such bank should require each country which receives structural adjustment assistance to have in place, after a reasonable phase-in period, a strategy to enhance the productive economic participation of the poor.

"(b) PROGRESS REPORT.—Before the end of the 1-year period beginning on the date of the enactment of this section, the Secretary of the Treasury shall submit to the Committee on Banking, Finance and Urban Affairs and the Committee on Appropriations of the House of Representatives, and the Committee on Foreign Relations and the Committee on Appropriations of the Senate, a report on the following:

"(1) The status of advocacy and progress being made to implement the objectives of subsection (a), describing the success to date, the obstacles encountered, and future expectations of progress.

"(2) A description of the progress to date in achieving the purposes of section 1611, including the institutional capacity and effort devoted to assisting in the development of statistical measures to assess the well-being of the poor.

"(3) A description and evaluation of the progress to date in developing effective mechanisms for involving non-governmental organizations, directly or indirectly, in the design, implementation, and monitoring of development projects, programs, and policies of the multilateral development banks.".

Attachment B.

DEVELOPMENT BANK ASSESSMENT NETWORK

Contacts: Nancy Alexander, FCNL and Charles Sykes, CARE

CONSENSUS NGO POSITION OF THE DEVELOPMENT BANK ASSESSMENT NETWORK ON THE IDA9 REPLENISHMENT

March 1990

The International Development Association (IDA) was established as a "soft-loan" window of the World Bank in 1960 in order to make concessionary financing available to countries which were too poor, or whose creditworthiness was too precarious, to qualify them for the Bank's regular loans.

Through the years, many in the U.S. NGO community have supported IDA in the belief that the poor in recipient countries were being directly assisted by its loans. If this were true, the community would continue to be largely supportive of such financing on below-market terms, particularly in light of the current drain of financial resources from the South to the North.

It is increasingly clear, however, that the overwhelming majority of IDA credits have supported projects and programs which have, at best, only indirectly, benefitted the poor. Today, there is in fact growing concern about, and often outright opposition to, many of the large-scale, environmentally questionable investments being made with IDA funds that can also cause extensive dislocations and great suffering among local populations.

Furthermore, many NGOs have been critical of the use of IDA financing to leverage and support economic policy reforms which have not served the interests of the poor and which have had a particularly negative impact on the lives of women and children. These structural adjustment programs have placed great pressure on NGOs engaged in grassroots development programs to utilize their limited resources and energies in relief and compensatory efforts designed to help protect the poor from the worst aspects of imposed austerity. Neither do these adjustment measures appear to be improving the economic performance of the Bank's borrowers. This fact was recently reinforced by the Bank's decision to begin a retreat from its adjustment lending in order to protect its triple-A rating on global bond markets.

The Development Bank Assessment Network, which includes among its participants some 15 non-governmental organizations, has been active over the past two years in discussing with members of Congress and representatives of the Treasury and the

World Bank the need for constructive changes in Bank operations. The group has set forth various concrete proposals for reform, drawing on the experience of its members at grassroots levels overseas and within the Bank itself. Today, due to a lack of significant progress in such areas as poverty reduction, environmental reform, access to information and the participation of local populations, we feel an increased urgency to press forward with an agenda for change so that taxpayers' money can be utilized constructively in the future.

Accordingly, we urge the Congress and the U.S. Executive Director to promote vigorously several proposed changes already under consideration at the World Bank, as well as a number of other fundamental changes in IDA's operations and loan portfolio described below. These we feel would provide the basis for a critical three-year effort to develop an IDA lending program more appropriate and responsive to the needs of the world's poor and of a healthy environment.

We believe that these modifications of the policies and practices of the IDA program will strengthen its work in its appropriate role as a provider of assistance to the activities of the world's poorest people, will increase its relevance to the attack on world poverty and environmental degradation, and will significantly improve its performance in all respects.

These proposed reforms can be placed in three major categories:

Poverty

1. by January 1991, all appraised IDA loans made in support of economic policy reform in borrower countries should be presented to the Bank's Executive Directors with supporting documentation indicating the short- and medium-term impact of the reforms on --

   a. the real incomes of the poor,
   b. the level of national food production (for local consumption) and food security,
   c. the access of the poor to land and other productive assets,
   d. the integration of local and regional economies, in particular the development of domestic and inter-regional systems of trade,
   e. the diversification of industrial and agricultural production that expands the use of local raw materials, goods and services,
   f. the access by women to productive resources and services, and
   g. the quality and delivery of essential social and technical services, including programs of primary health care, nutrition, credit and training,

and immediate steps should be taken to change the reform program in light of projected negative trends in any or all of these areas;

2. by July 1991, the Bank should initiate, in collaboration with local governments and independent parties, the implementation of publicly available, social-impact assessments in all IDA and blend countries of a representative cross-section of IDA-supported projects and programs collectively utilizing at least 50 percent of the IDA funds disbursed in each of those countries;

3. by July 1991, the Bank should relocate its Women and Development unit to the Office of the Senior Vice-President for Operations and reallocate sufficient staff to that unit so that it is able to participate in institutional decision-making related to the planning and supervision of all projects and programs supported with IDA funds and to help prepare, on an annual basis, disaggregated statistics that indicate, by gender, the effects of adjustment and other programs on local populations;

4. by January 1992, at least 50 percent of IDA recipient governments should have national poverty eradication strategies developed through open and thorough consultation with a broad range of popular groups and other non-governmental organizations in their respective countries, and at least two-thirds of IDA's projected lending to these countries should be designed to support aspects of these plans; and

5. by January 1992, IDA's financing of adjustment programs should be sharply decreased in all borrower countries and a plan developed for lowering the percentage of adjustment lending by the end of the year to less than ten percent of each country's borrowing, consistent with the Bank's original mandate.

The Environment

1. by July 1991, a comprehensive review chaired by the U.S. Executive Director should be conducted of the Tropical Forest Action Plan to ensure that the implementation of that plan has a positive rather than a deleterious environmental impact before any projects under that plan are financed with IDA9 funds;

2. an environmental impact assessment reflecting the views of affected groups and local NGOs must be submitted to, and approved by, IDA/Bank staff for any prospective project or program (including sector and structural adjustment programs) that has potentially significant environmental consequences before IDA9 funds are allocated to that project or program, and by July 1991 borrower governments must be carrying out

assessments for all relevant projects and programs in order to receive IDA funds;

3. by January 1992 and in accordance with Bank plans, Environmental Action Plans for tackling priority issues in borrower countries should be completed for all IDA recipients, and the Energy Sector Management Assistance Program should be fully integrated into IDA lending operations as part of expanded efforts in support of programs of renewable energy and energy efficiency and conservation; and

4. by January 1993, IDA guidelines currently under development should be completed for operations that involve tropical rainforests, tropical dry forests, wetlands, mountain regions and coastal resources.

Consultation and Information Access

1. by July 1991, the Bank should develop a Grassroots Collaboration Program, originally proposed in 1987 by the United States, under which mechanisms are established in all IDA and blend countries for comprehensive consultation with popular groups and other non-governmental organizations in order to involve local populations in the conceptualization, design, implementation and monitoring of development projects and programs, including structural and sector adjustment programs;

2. by January 1991, the Bank must implement a policy on public access to information that makes publicly available all IDA documents and final country-generated documents required by IDA, excepting those sections of documents that contain information that falls within pre-determined categories and the release of which would seriously compromise a relationship with a borrower government; under no circumstances should information concerning fundamental physical, institutional and economic elements of IDA-supported operations, such as information related to loan design, loan conditionality, economic analysis and environmental, public-health and sociocultural impacts, be treated as confidential; and

3. by July 1991, the Bank should assign a senior staff person to each Country Department, as well as to each Resident Mission, who has the responsibility for responding to public requests for information and for initiating contact with the public and concerned NGOs about specific projects and programs, so as to be able to respond to requests for information within twenty working days of their receipt by the institution.

NGOs working on multilateral aid issues look forward to being able to support an IDA program that incorporates these or similar changes in its operations. We therefore urge the Congress and the Administration to press for such reforms and to ensure that reports on progress in the above areas are made available on a regular basis to the Congress and the American public so that informed decisions regarding U.S. financing of IDA can be made.

ENDORSING ORGANIZATIONS

James Abernathy
AFRICA FOCUS PROJECT, CINCINNATI
AFRICAN AMERICAN CULTURAL SOCIETY

Chad Dobson
BANK INFORMATION CENTER

Barbara Segal
BREAD FOR THE WORLD

Charles Sykes
CARE

Jo Marie Griesgraber
CENTER OF CONCERN

Christina Cobourn
COLUMBAN FATHERS JUSTICE AND PEACE OFFICE

David Williams
COUNCIL ON HEMISPHERIC AFFAIRS

Doug Hellinger
DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES

Bruce Rich
ENVIRONMENTAL DEFENSE FUND

Nancy Alexander
FRIENDS COMMITTEE ON NATIONAL LEGISLATION

Jim Barnes
FRIENDS OF THE EARTH

Kay Treakle
GREENPEACE

Rekha Mehra
INTERNATIONAL CENTER FOR RESEARCH ON WOMEN

Steve Parcells
NATIONAL AUDUBON SOCIETY

Lane Vanderslice
NATIONAL COUNCIL FOR INTERNATIONAL HEALTH

Barbara Bramble
NATIONAL WILDLIFE FEDERATION

Sam Harris
RESULTS

Larry Williams
SIERRA CLUB

Audrey Chapman
UNITED CHURCH OF CHRIST, United Church Board for World Ministries

Tom Getman
WORLD VISION

The following is an excerpt of the language agreed to by the 35 donor countries to IDA 9 negotiations in 1989 as a framework for lending.

Attachment C.

had moved beyond the broad macroeconomic variables to increasing concern with sectoral policies, institutional capacity and the supply response.

5. The donors indicated substantial support for the evolution which had taken place in IDA's programs. They identified three program areas for higher priority:

- poverty reduction, which remains central to IDA's mandate. Donors encouraged an even stronger focus on poverty in IDA's programs and greater weight in lending allocations to poverty alleviation as an element in performance.
- support for sound macroeconomic and sectoral policies. Donors urged IDA to work to strengthen policy-making institutions and to address the policy framework through all elements of its economic and sector work and lending operations.
- the environment. Donors recognized the significant steps which had been taken to broaden and intensify IDA's programs for environmental protection and improvement and were concerned that the Association should recognize the priority they attached to a further expansion and strengthening of environmental activities.

6. The donors stressed that IDA's lending program should retain a focus on the poorest countries and on the poorest sections of the population. IDA was asked to ensure that poverty reduction will be central to its policy dialogue with recipient countries, to encourage these countries to adopt measures to protect the poor during the process of adjustment, and to increase the weight given in the performance criterion for the allocation of IDA resources to an effective commitment to poverty reduction by governments.

7. Donors asked IDA's management to view the program emphasis on poverty reduction broadly, encompassing all sectors and integrated in all operational activities. Poverty reduction should involve the poor fully in a sustainable and equitable development process, by improved access to productive resources, such as land, credit, employment and social services. The donors recognized the importance of national plans and strategies to eliminate the causes of and alleviate poverty. They also recognized the importance of a wide range of carefully targeted direct interventions relating to human resource development. In particular they welcomed the significant increase proposed in the share for human resources in lending during the IDA9 period. They noted that IDA should emphasize the provision of basic services in health care and primary education, improving efficiency of delivery of such services and broadening access by disadvantaged sections of the community.

8. The donors welcomed the expanding attention to matters such as reducing the rate of population growth, improving health, nutrition, education and training, institutional development, and women in development. The donors pointed out the linkages among these programs to reduce poverty. They saw two areas as being especially key to successful efforts in the long term. First, they placed emphasis on IDA's activities in the area of population policy, including lending to support governments in developing appropriate policies, establishing information, education and communications programs, and expanding coverage and quality of maternal and child health care services. Second, they stressed the need for IDA to take cognizance in its project design of the role of women in development both through increasing their access to education and to productive assets and through attention to women's role as decision-makers on questions of family consumption, health and education and as entrepreneurs and members of the labor force.

9. Donors encouraged IDA to undertake further analytical work to improve borrowers' ability to develop better targeted interventions for poverty reduction. They noted the need for further steps to develop IDA's approach to poverty reduction along the lines of the guidelines on poverty from the Development Committee of September 1988. They also noted the difficult and long-term nature of this work and underscored the importance of developing staff capabilities and experience as well as the need to coordinate with other donors in this field -- notably the UNDP.

10. The donors considered it important for IDA to continue to play a central role in developing and supporting adjustment programs, both through quick-disbursing adjustment loans and through investment lending. They recognized that investment lending will remain the mainstay of IDA's lending programs and that some 75 percent of IDA's resources are used for investment purposes. The donors underlined the need to maintain an appropriate balance between quick-disbursing adjustment lending and investment lending, which were seen as mutually reinforcing, with the right mix to be determined on a country-by-country basis. As in IDA8, the share of quick-disbursing adjustment lending should remain at around 25 percent for IDA9 and should not exceed 30 percent of total IDA lending. The donors requested that the regular reports on adjustment lending prepared by the Bank pay special attention to IDA countries as a group, so as to facilitate careful monitoring of the implementation of adjustment programs. They also requested that the Executive Directors develop appropriate procedures for regular review and approval by the Executive Directors of tranche releases of adjustment credits.

Attachment D.

ADDITIONS TO IDA RESOURCES: NINTH REPLENISHMENT

IDA/R90-1
January 5, 1990

25. Donors underscored the importance of sound macroeconomic and sectoral policies as a basis for effective use of IDA funds in all recipient countries, and urged that IDA's regular assessments of country performance specifically include a determination on the adequacy of these policies, with a view to identifying where improved performance is necessary to help build sustainable and increasingly self-supporting development. In order to ensure that IDA credits are approved in the context of adequate macroeconomic and sectoral policies, the donors recommended that the Executive Directors assess the policy framework for each IDA borrower annually, or as necessary in the case of small borrowers, and record their conclusions. This would be done in the context of a lending operation and under procedures which the Executive Directors will determine. As a basis for the deliberations of the Executive Directors, management should prepare documentation which covers the following points:

- assessment and determination of performance (as discussed above) including any major issues in macroeconomic and sectoral management, poverty reduction and the environment;
- the progress in implementation of the plans set forth in the PFP or other relevant country documents;
- the state of the policy dialogue;
- the country lending strategy and priorities;
- the possible need for IDA-supported adjustment and the choice and sequencing of adjustment operations;
- the composition of project lending;
- aid coordination with other multilateral and bilateral agencies and cooperation with the IMF; and
- criteria by which progress would be judged.